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GRADUATION STRATEGY OPTIONS

FOR THE USAID ASSISTANCE PROGRAMS

IN EASTERN EUROPE AND THE NEW INDEPENDENT STATES

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I. Executive Summary

1. Over the past two years, the Bureau for Europe and the New Independent States (ENI) has developed an increasingly sophisticated system for monitoring the ENI countries' progress and performance in the Bureau's three strategic assistance areas. In FY 1995 the Bureau developed a set of socioeconomic data by which the ENI countries were ranked according to how far along they were considered to be in achieving fundamental economic and political reforms. In FY 1996 the Bureau launched a major effort to refine the data collection and analysis process by the design of a Country Progress Monitoring System: a series of objective indicators (and related variables) for "monitoring progress of the countries more generally to determine whether continued assistance is necessary or justified."

2. Last April, as part of the Reinventing Government (REGO) exercise, decisions were made at the highest levels of the Department of State and USAID on the phase-out of U.S. assistance in scores of countries around the world. The phase-out decisions affecting the other three Regional Bureaus were based primarily on foreign policy considerations and Operational Expense (OE) budget constraints. The phase-out dates that were established for the last fiscal year of SEED and FSA funding *in the ENI region* were based mainly on the initial rankings of the ENI countries that the Bureau's monitoring system had produced.

3. After many months of intensive design and debate within the ENI Bureau about the appropriate indicators, variables and methodology for data collection, the Bureau's Country Progress Monitoring System is still in the "final draft" stage. It is time for the Bureau to come to closure on the design of the system. Having the system in place, and collecting new data and updating the country rankings on an annual basis, will: a) continue to demonstrate that the ENI Bureau has analytical underpinnings for its phase-out decisions; and b) can provide an essential tool for justifying any proposed exceptions to the phase-out schedule.

4. The fact that the timing of the phase-out at individual ENI Posts in the CEE and NIS countries is still being closely held for political reasons at home and abroad makes it very difficult for USAID and its many implementing partners to plan and coordinate an orderly phase-out. There is strong sentiment in both Washington and the Field for making the entire phase-out process transparent.

5. Albania and the Central Asian regional program have been tentatively identified by the ENI Bureau as potential "sustainable development" programs. This would enable the ENI Missions and Offices in those countries to think beyond the transitional nature of their current programs and focus their full attention on long-term development. It is

time for the ENI Bureau to obtain the necessary bureaucratic approvals from the appropriate levels in the State Department and USAID to place these programs in the sustainable development category.

6. Most of the other multi-lateral and bi-lateral donors active in the ENI region have only very general plans for the phase-out of their current programs. None has any sophisticated graduation criteria or phase-out strategy at the present time. Most of the other donors have tied their phase-out in central Europe to the timing of the European Union (EU) accession process. This means that they will generally be active in the CEE countries at least two to five years longer than USAID.

7. The ENI Missions are all in various stages of planning and implementing their phase-out. The phase-out (and close-out) is most advanced in three countries of the northern tier (NT) of central Europe (Estonia, Latvia and the Czech Republic) and one ST country, Slovenia. Some ENI personnel feel that while these four countries are further along in their political and economic transformation than any other ENI countries, their phase-out has been too "precipitous." Some Strategic Objectives will not be fully achieved in those countries, because some of the activities which supported those S.O.s. were just getting started and then had to be terminated in the phase-out process.

8. The phase-out in four other NT countries (Hungary, the Slovak Republic, Poland and Lithuania) is just getting under way, and there is also the possibility that some of their Strategic Objectives may only be partially achieved in the waning years of their program. But this should not be grounds for incrimination or despair. On the contrary, the ENI Bureau can take pride in the realization that its most important goals at the *strategic assistance level* appear to be well on the way to being achieved in the northern tier (NT) countries of central Europe.

9. With the exception of Lithuania, where the issue is still somewhat in doubt, every NT country appears to be firmly established on the desired course. Their economic and political reforms are viewed as irreversible, not withstanding the fact that there is some concern at most Posts about the strength of democracy at the grass roots. (There are and will remain tremendous problems in the area of social stabilization, e.g., pension reform and health care financing, but the Bureau has never claimed that its limited resource allocations in the social sectors could ever adequately address these.)

10. The phase-out in Hungary, the Slovak Republic, Poland and Lithuania is on a more gradual track, and it would be a mistake to speed up the process at those Posts, even though there is some sentiment for doing so. Each has had the time over the past two years to focus its energies and concentrate its resources on what it deems to be the most important tasks to accomplish within its prescribed phase-out period. Each needs its remaining several years to complete its work and manage an orderly phase-out (and close-out).

11. In order to assure an orderly phase-out in the southern tier and NIS countries, a similar concentration of their resources and energies is imperative. As part of next year's R-4 process, they should undertake a programmatic *triage* in order to: a) eliminate the Strategic Objectives which have the least chance of being achieved in the waning years of their program; and b) terminate "low impact" projects and activities and only provide further funding to those which are clearly expected to contribute to the achievement of the remaining S.O.s.

12. The major *external* obstacles to the full achievement of ENI's Strategic Objectives in the northern tier countries of central Europe are considered to be: 1) weak local and municipal governments; 2) weak civil society and lack of citizen participation at the grass roots; 3) weak local and regional institutions; 4) weak banking and financial sectors; and 5) the required legal and regulatory framework is not in place. The first three obstacles can be generally grouped as obstacles to a successful democratic transition. The fourth relates entirely to economic restructuring. The fifth relates primarily to economic restructuring, but also to the democratic transition, in terms of the enabling legislation for NGOs and other civic groups.

13. When encouraged to identify "resource gaps" as part of this exercise, senior USAID personnel in the Field came up with a very short list. It is primarily in addressing the obstacles to a successful democratic transition that most NT Posts are planning to focus their resources in the waning years of their program. And it is primarily in the democracy/governance area that the NT Posts are prepared to say that there are potential resource gaps for which they may request additional time or money.

14. The *internal* obstacles to an orderly phase-out that are of most concern to ENI personnel are: 1) overall staffing constraints, and retaining and training local personnel; 2) the paucity of timely and accurate pipeline data; 3) the heavy (and confusing) reporting burden imposed on the Field; and 4) the inflexibility of the Agency's procurement policies and procedures.

15. Fifteen potential mechanisms for sustaining the benefits of U.S. assistance were identified and examined in this exercise. Some of these mechanisms are being employed with some success in the NT countries. Those with the *highest* potential for further employment by all ENI Missions and Offices are: Channeling the Reflows from the Enterprise Funds; Endowments; Strengthening Host-Country Institutions; Strengthening Regional Institutions; and Partnerships. The mechanisms with *moderate* to *limited* utility are: Leveraging Other U.S. Agencies; Leveraging Other Donors; Reimbursable Technical Assistance; Bridging Funds; Foundations; and Bi-National Institutions. The mechanisms with strictly *limited* utility are: Leveraging the Global Bureau; Trust Funds; Franchises; and the Advanced Developing Country concept.

16. There are at present more than a dozen ENI regional program management administrative support arrangements in the CEE and NIS countries. While these appear to be working fairly well, many ENI personnel do not feel that they are still appropriate, as the pace of the phase-out accelerates. They believe that a Regional Mission is needed to consolidate the current regional operations and play any expanded role in regional program and project management.

17. Finally, there is the question of the future of the ENI Bureau itself. Many ENI personnel feel that the organizational structure and staffing levels of the Bureau *in Washington* need to be critically examined, with a view to developing a phase-out plan for the Bureau that mirrors the phase-out of its programs in the Field.

II. Overall Phase-Out Planning

A. ENI Country Progress Monitoring

Over the past two years the Bureau for East Europe and the New Independent States (ENI) has developed an increasingly sophisticated system for: a) monitoring countries' progress/performance in the Bureau's three strategic assistance areas: economic reform, the democratic transition and social restructuring; and b) determining when the U.S. could declare that its assistance objectives had been fully achieved and its aid program could be phased out.

In early FY 1995, the ENI Bureau presented to the Office of Management and Budget (OMB) a set of socioeconomic data in which the Bureau grouped countries according to how far along they were considered to be in achieving fundamental economic and political reforms.

In early FY 1996, the Bureau launched a major effort to formalize and refine the data collection and analysis process by the design of a Country Progress Monitoring System: a series of objective indicators (and related variables) for "monitoring the progress of the countries more generally to determine whether continued assistance is necessary or justified."

Last April, as part of the Reinventing Government (REGO) exercise, decisions were made at the highest levels of the Department of State and USAID on the phase-out of U.S. assistance in scores of countries around the world. The phase-out decisions affecting the other three Regional Bureaus were based primarily on foreign policy considerations and Operation Expense (OE) budget constraints. However, the phase-out dates for the last fiscal year of SEED funding in central Europe, and FSA funding in the NIS countries, were based mainly on the ENI Bureau's initial country rankings – even though the new Country Progress Monitoring System was still in the draft stage at the time.

After nine months of intensive design and debate about the appropriate indicators, variables and methodology for data collection, the document describing the proposed new system is still in "final" draft. The draft includes tables (shown in Annex C) which provide new rankings of 25 CEE and NIS countries, based on data collected as part of the design effort last Spring.

Many personnel in the Field were surprised to learn how much time and effort the ENI Bureau has invested in the design of the Country Progress Monitoring system. When shown a June draft of the system, many disagreed with one or more of the proposed indicators or data sources. Some even felt that -- given the seemingly firm phase-out dates that were established last April -- the system was no longer required.

However, when shown the system's rankings, most USAID officers conceded that *their* country was ranked just about right, and that the new system, even in its draft stage, provided strong substantive support for the Bureau's phase-out schedule, as it applied to their country program. Moreover, they conceded that if the Bureau can reach an agreement on the final design of the system, the next set of data and country rankings that the system produces can provide the justification for potential adjustments to the established phase-out dates in future years.

In any event, having the system fully in place will enable the ENI Bureau to demonstrate that it has very solid analytical underpinnings for its phase-out, something no other Regional Bureau can claim. Moreover, the Office of Management and Budget (OMB) considers a fully operational monitoring system to be an essential tool in justifying the timing of the phase-out (and possible exceptions) to the Congress and the public.

Recommendation # 1: That the ENI Bureau quickly come to closure on the design of its Country Progress Monitoring system and use the system to produce annual updates (by March 31) of the relevant data *and the country rankings,* as essential inputs to the Bureau's budget reviews in the Spring.

B. The Timing of the ENI Phase-Out

Just how firm are the phase-out dates that were established last April? How much flexibility does the ENI Bureau have to adjust the dates if some changes are clearly warranted?

Given what he considers to be the political sensitivity (both at home and abroad) of the phase-out dates in the CEE countries, the State Department's SEED Coordinator has ordered that some of them be closely held -- within the bureaucracy -- until *at least* mid-November of 1996. Although the State Department's NIS Coordinator has not issued a similar order, the phase-out dates for the NIS countries have also been closely held.

Classified cables were sent to some Missions informing at least senior U.S. Embassy and USAID officials of the phase-out dates for their countries. The dates were discussed openly at the ENI Bureau's budget reviews last Spring, which were widely attended by personnel from State, USAID and other U.S. agencies implementing the ENI Bureau's projects in the Field. Inevitably, the phase-out dates also leaked out to many people in Washington and the Field.

Nevertheless, scores of persons *within the bureaucracy* were surprised to first learn of these dates while being interviewed in connection with this report. Many complained that vital information which they have a "need to know" was being unfairly withheld from them. All felt that the phase-out exercise should be completely transparent.

Indeed, how can the Bureau and its many implementing partners -- including 18 other U.S. Departments and agencies, and scores of contractors and grantees -- be expected to plan and implement an orderly phase-out when they lack crucial information on how long SEED and FSA funding (and the official U.S. presence) is supposed to last?

The many host-country institutions that are currently being strengthened with SEED and FSA funds also need to be told that those funds will be drying up, and that it is time for them to begin to think seriously about how they will achieve financial self-sufficiency. And what about the host country Governments? Is there really a grave political risk in officially informing them of our phase-out plans? They have apparently leaked out to the Polish Government, and it is said to take pride in the fact that Poland will soon be graduating from U.S. assistance.

Granted there may be some *domestic* political risks in disseminating the phase-out dates. But the greater risk is that the phase-out exercise is flawed by uninformed and uncoordinated actions on the part of ENI personnel and their implementing partners. Everyone should be working from the same script.

Recommendation # 2: That the ENI Bureau initiate action to *officially inform* all those concerned -- in Washington and the Field -- of its phase-out plans in all the CEE and NIS countries.

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Although at this writing many of the phase-out dates are still being closely held, it is public knowledge that four of the CEE countries are well into their phase-out (and close-out). The last fiscal year of SEED funding for Estonia was 1995. The last fiscal year of SEED funding for the Czech Republic, Latvia and Slovenia was 1996.

In general terms, the next in line are the remaining CEE northern tier (NT) countries, followed by the southern tier (ST) countries, with most of the NIS countries bringing up the end of the line.

Albania and the Central Asian regional program have been tentatively identified by the ENI Bureau as potential "sustainable development" programs. This would make them eligible for funding from the Agency's Development Assistance (DA) or other accounts after SEED funding ends. OMB believes that *now is the time* for the ENI Bureau to seek the required approvals to classify Albania (and perhaps several countries in the NIS region) as "sustainable development" countries. This would enable the ENI Missions in those countries to begin to *officially* think beyond the transitional nature of their current programs and focus their full attention on long-term development strategies. It would also exempt them from the imperatives of this phase-out exercise.

Recommendation # 3: That the ENI Bureau initiate the steps required to obtain Agency approval for some of its countries to be classified as "sustainable development" countries.

* * *

War-torn and politically-divided Bosnia is in a special exception category. Its phase-out dates (and funding levels) are very notional at this point. In any event, Bosnia was not included in any of the discussions relating to this exercise and Bosnia will not be mentioned again in this report.

* * *

Senior management of the ENI Bureau does not consider the phase-out dates to be locked in stone, particularly not those for the NIS countries. They are willing to consider Field requests for exceptions, particularly to close what management has termed "resource gaps." These are defined as a discrete program area (or perhaps just a single project or activity) for which a Mission can make a strong case that additional funding -- or additional time -- can make a crucial difference in the achievement of a Strategic Objective, or to assure that the overall reforms are irreversible.

The State Department's SEED Coordinator is willing to consider well-justified exceptions to the established phase-out dates, though preferably only for three to six months. Indeed, in his view, the most important outcome of this exercise, i.e., the follow-up actions that should result *from this report,* is the identification and closure of the resource gaps in every ENI Mission.

This does not necessarily mean that the Seed Coordinator's Office is prepared to go to OMB and the Congress for additional SEED funds. Its expectation is that the resource gaps will be closed by a reallocation of funds within each Mission's currently-established OYB levels. Its position is that the only new funds that should be made available for programming beyond the established phase-out dates are the potential re-flows from the Enterprise Funds (a subject addressed in Section V).

The situation with respect to the NIS region could be changing even as these lines were being written in late October of 1996. The possibility of proposing longer periods of assistance for some of the NIS countries, i.e., extending the phase-out dates beyond those established last April, is being seriously considered by the State Department's NIS Coordinator.

A senior OMB official who tracks the ENI programs has indicated that OMB would also support well-justified exceptions to the established phase-out dates, for both the CEE and NIS countries. But he cautioned against using *this exercise and this report* as the basis for somehow continuing the ENI programs "by some other means" and thereby making a "sham" of the phase-out.

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Another important player in the phase-out equation is the USAID Bureau for Management (M). Its senior management has consistently taken a hard line, stating that "out is out" and that it would not grant any exceptions to the established *close-out* dates for any Regional Bureaus' Missions. One relatively high-level M official has hinted recently that the Bureau might be a little more flexible on this issue.

However, the proof of the pudding will be in the M Bureau's annual allocations of Operating Expense (OE) funds. Unless the ENI Bureau's OE allocation is sufficient to maintain the U.S. direct-hire presence and physical facilities at each Mission for as long as currently planned, the prospects of an orderly phase-out (and close-out) are not good.

C. Other Regional Bureaus' Phase-Out Strategies

As part of the Agency's overall effort to reduce its programs and overseas presence, the other three Regional Bureaus were also given phase-out dates last April for a number of their countries. So they too are in the process of phasing out programs and closing Missions.

What is driving the other Bureaus' phase-outs? What can the ENI Bureau learn from the other Bureaus' experience and apply in its own phase-out?

The ENI Bureau has known from the start that its programs were intended to be *temporary*, i.e., to assist the CEE and NIS countries in achieving a transition to democracy and market economies. But the other Regional Bureaus' programs have traditionally been almost open-ended. Thus, they have generally not focused much in the past on such issues as "sustainability" and "what to leave behind"

1. The Bureau for Africa (AFR)

The Africa Bureau has actually been steadily phasing out programs and Missions over the past five years. The latest round of reductions is said to be driven primarily by cuts in the Bureau's OE budget.

Some programs – like those in the three BLS countries: Botswana, Lesotho and Swaziland – are phasing out because the countries are doing pretty well. Botswana is the only country that is being touted as a legitimate "graduate." Other programs were phased out for negative reasons, e.g., Nigeria (drug trafficking and human rights problems), Burkino Faso (a poor development partner), and Gambia and Niger (military coups).

According to one AFR Bureau official, the phase-outs "have not been very systematic" and "getting out does not necessarily mean that we have achieved our goals." In none of the above cases was the phase-out decision based on a country having achieved "graduation" status in accordance with some pre-determined criteria.

The same can be said of three other AFR programs scheduled for phase-out over the next five to ten years: South Africa, Zimbabwe and Namibia. They were chosen largely because of the high OE cost of maintaining a U.S. presence in those countries, buttressed by the view that the countries are doing relatively well.

The Africa Bureau recently launched what it calls a "graduation strategy" exercise to determine where those three countries should be by the year 2000 -- and what USAID should do in the intervening years to help them get there. According to another AFR official, this exercise in *advanced* phase-out planning will be a first for the Bureau. It will include more attention to sustainability issues than has been the case in previous phase-outs.

2. The Bureau for Latin America and the Caribbean (LAC)

The LAC Bureau is fully phasing out some of its programs and considerably down-sizing others. Over the past several years, the Bureau phased out five country programs, reducing the overall number from 21 to 16. Of the five, only Costa Rica is considered to be a legitimate "graduate" country, i.e., all of the Bureau's goals and objectives in a sustainable development program covering more than two decades were achieved.

Last April, the LAC Bureau was instructed by Agency management to cut back to seven "sustainable development programs" by the year 2000. The Bureau reluctantly agreed -- over the next four years -- to phase-out its programs in Panama and Ecuador, considerably down-size its program in the Dominican Republic, and seriously consider managing a reduced program in Brazil with one U.S. direct hire officer, as is already the case in Paraguay and Guyana.

The Bureaus' phase-out and down-sizing decisions have been mainly based on U.S. foreign policy interests and OE budget constraints. LAC did launch an effort early in FY 1996 to establish some *sector* criteria for determining a country's eligibility for graduation. But that effort was aborted last Spring, as the latest phase-out decisions were made primarily on foreign policy grounds.

LAC's overall phase-out (and down-sizing) strategy is to encourage its Missions to reduce the number of their Strategic Objectives and to consolidate and prioritize their remaining projects and activities. This is viewed as the most essential step in the Bureau's effort to maximize the impact of its dwindling financial and human resources. *As will be argued in later sections of this report, this is a strategy that the ENI Bureau should emulate.*

3. The Bureau for Asia and the Near East (ANE)

Like LAC, the ANE Bureau started to develop some graduation criteria about a year ago. The first draft of a graduation strategy paper was discussed briefly at an ANE retreat. However, when the Bureau was forced to make some quick phase-out decisions last April, they too were based mainly on political imperatives and OE funding constraints.

Thus, the highly political programs in Egypt, the West Bank, Gaza and Cambodia were untouched, while, in the words of a senior ANE official, the decision was made to "cut and run" in Yemen. It was also decided to immediately phase-out the Regional Mission in Thailand, and to phase-out the programs in Morocco by the year 2002, and Indonesia and the Philippines by 2005.

The ANE Bureau is starting to develop what it calls "transitional plans" for its programs in Indonesia and the Philippines. These will be developed at the "sector" level, not at the lower Strategic Objective level, which ANE considers too complicated for measuring overall accomplishments in the phase-out stage.

D. Other Donors' Phase-Out Strategies

Most of the multi-laterals and bi-lateral donors active in central and eastern Europe have very general plans for the phase-out of their current aid programs. These plans correspond roughly *to the year in which each CEE country achieves full membership in the European Union (EU).*

For these other donors, "graduation" is synonymous with EU accession: their graduation criteria are the political and economic standards that a country must meet before it will be admitted as a full-fledged EU member state. In the case of those countries, primarily in the NIS region, which are *not* active candidates for EU membership, the other donors are not yet thinking about graduation or phase-out; there they appear to be committed to providing development assistance for the long-term.

However, some of the other donors have their own budget constraints, and they are beginning to scale back their funding levels.

1. The World Bank

According to a senior official in Washington, the Bank has a "time horizon" for terminating its assistance as each CEE country become a full EU member. For the NT countries, he estimates that this will occur between the years 2000 and 2002, although the

Baltic countries could get hung up on the related issue of NATO integration. The ST countries are not expected to follow suit until 2005 to 2010.

That being said, the Bank has already terminated its aid to the Czech Republic: "it no longer needs the Bank's assistance." The Bank is also considering phasing out its concessional aid to Slovenia in about three years, i.e., well before the country is expected to gain EU membership. Slovenia is slated to be the Bank's "pilot graduate" in terms of establishing some type of reimbursable technical assistance arrangement.

Moreover, according to the Bank's principle economist in Budapest, assistance to Hungary will probably be phased out "over the next two or three years," by which time "the third stage of Hungary's economic transformation will be successfully completed." On the other extreme, the senior Bank official in Vilnius stated that aid to Estonia might be terminated within three years, while the Bank's assistance to Lithuania will go on "for at least 10 to 15 years."

In sum, there does not appear to be a firm party line in the Bank on the duration of its programs in the CEE countries. But the Bank does appear fully committed to responding to what one official called the "huge continuing assistance needs" of the NIS countries (particularly those in central Asia), and to participating in the reconstruction of a peaceful Bosnia.

2. The European Bank for Reconstruction and Development (EBRD)

The London-based EBRD -- which was established in the early 1990's with the expressed aim of assisting the countries of central and eastern Europe develop into market economies -- has become one of the biggest donors in the region, e.g., it accounted for 60 percent of all direct donor financing to the Slovak Republic in 1994.

According to its Principal Banker in Bratislava, the Bank is in the final stages of producing a "graduation strategy" for the NT countries. This will call for the Bank's assistance to be terminated "shortly after" the countries are admitted into the EU. (The ENI Bureau should obtain a copy of the EBRD's strategy statement when it becomes available in several months.)

3. The European Union (EU)

The European Union administers very large and diverse assistance porfolio in all of the CEE countries, through its EU/PHARE program. Overall EU aid levels in some of the CEE countries -- Hungary is a good example -- are on the rise, as other donors are beginning to cut back on their aid.

Starting this year (1996), the EU/PHARE programs are being focused *primarily* on direct assistance in helping the CEE countries meet the economic and political standards required to become EU members. The new "primary objective" of the EU Mission in Vilnius, for example, is "to help implement the Association Agreement and move towards accession to the European Union, at the same time completing the process of medium-term restructuring and transition to a market economy."

The EU Head of Delegation in Bratislava says the new focus on EU accession will require much more "rigor" in the EU/PHARE programming process and "more precise mechanisms for aid delivery."

By March of 1997 the EU's so-called Inter-Governmental Conference will have completed an 18-month exercise in preparing the groundwork for a host of new countries to become EU members, including a time-table for the negotiations leading to EU accession with each country. Malta and Cyprus are expected to be the first in line, followed by four countries as a group: Poland, Hungary, the Czech Republic and the Slovak Republic (if it can clean up its political act), to be followed by the three Baltic States.

Once a country is admitted to the EU it will no longer be eligible for concessional assistance and the EU/PHARE aid offices will be closed.

4. Germany

In terms of the sheer volume of its aid, Germany is by far the largest bi-lateral donor in the ENI region. Since the early 1990s, Germany has provided about $70 *billion* in aid, credits and debt relief to the NIS countries, and another $30 *billion* in various types of assistance to the CEE countries. (These figures do not include the hundreds of billions of dollars that Germany has spent rebuilding the former East Germany since the end of the Cold War.)

However, Germany's federal and state (Laender) budgets can no longer sustain such tremendous assistance levels. (The Laender fund and manage a considerable portion of Germany's bilateral aid.) Thus, the German "Transform" program of technical assistance "for the establishment of democracy and social market economies" in the CEE and NIS countries is being cut back from a level of about $200 million in 1995 to just over $100 million by 1999.

Moreover, the Transform program is being increasingly concentrated on assistance activities that will "make possible the rapid integration in, and economic association with, the European Union," and this aid will be phased out as the recipient countries achieve full EU membership. At the same time, as stated in a current Transform vision statement: "an extremely high demand (for assistance) in the NIS will continue to exist...therefore the

Federal Government basically expects a shift of the Transform program from the central and east European countries to the NIS."

5. The Nordic Countries

The Nordic countries all have significant aid programs in the NT countries, including special relationships with the Baltic states. Finland has been the major donor in Estonia, and is generally conceded to have been the donor most responsible for that country's very rapid political and economic transformation.

Sweden is the major Nordic donor in Lithuania, with significant programs in the other Baltic countries and northern Russia, which it expects to maintain at current levels for at least the remainder of the century. As a recent entrant into the EU, Sweden considers itself well-qualified to provide useful advice and assistance to the Baltic States as they prepare for EU accession. Norway and Denmark are important donors in Latvia.

It appears that the Nordic countries will generally maintain their aid programs in the CEE countries at either current or slightly-reduced levels (due to budget constraints) until such time as the recipient countries get into the EU. The Nordics' aid programs in the NIS countries appear to be open-ended.

6. The United Kingdom

The British Know-How Fund administers UK assistance in the CEE and NIS countries. The relatively modest program (roughly $55 million a year in technical assistance) is expected to continue at about that level for the foreseeable future. Assistance to the countries seeking EU accession will be increasingly concentrated on helping them get there, particularly in the area of democracy/governance. The Know-How Fund's London headquarters is currently developing a "graduation strategy" that will highlight the "milestones" that the Fund hopes to reach in its waning years of operation in central Europe.

7. Canada

Although Canada is a relatively small donor in the CEE and NIS region, it is not a member of the European Union and thus does not link the timing of its aid programs to EU accession. In the Czech Republic, for example, while other donors (like the U.S.) are already phasing out their assistance, Canada plans to continue its aid until the Czech Republic achieves "middle-income" status (which it estimates to be in about five years).

Canada is moving away from Government to Government programs in the CEE countries, in favor of more assistance to NGOs and other groups and individuals at the grass-roots level. This program shift is mirrored in the plans of many of the other donors.

To briefly sum up other major donor's phase-out plans: none can be said to have a very sophisticated phase-out strategy. Most have tied their phase-out in central Europe to the timing of the EU accession process. This means that they will generally be active in the CEE countries at least two to five years longer than USAID. The other donors' program levels in the CEE and NIS countries will be primarily decided on the basis of their budget situation at home.

III. The Status of the Phase-Out

A. A Brief Overview

The ENI Missions and Offices are in various stages of planning or implementing the phase-out of their programs and U.S. direct-hire presence. This section summarizes the status of the phase-out in the northern tier (NT) of central Europe, which was the only region visited by the consultant in the preparation of this report.

The phase-out is well advanced in three NT countries: Estonia, Latvia and the Czech Republic (and Slovenia, in the southern tier). Indeed, the Offices of the Aid Representative (OAR) in all three NT countries are already implementing ENI Bureau-approved administrative *close-out* plans.

When the ENI Bureau first launched its programs in the early 1990s, it adopted a supply-driven strategy. In order to quickly move the money, and to make an impact in as many areas as possible, scores of projects and hundreds of activities were initiated. These were grouped under the Bureau's three "strategic assistance" goals: the democratic transition, economic reform and social restructuring. This exempted the Bureau from many of the imperatives of the Agency's traditional programming system.

Then, in 1995, the Bureau began to "package" its many ongoing projects and activities in the Agency's new Results Framework, i.e., the whole panoply of Goals, Strategic Objectives, R-4s, R-2s, etc. This exercise gave greater focus to the ENI programs and led the Bureau to adopt a demand-driven strategy.

The ENI Bureau programs its activities on the basis of a *standard set* of 11 Strategic Objectives. Initially, most Missions and Offices designed and implemented projects and activities relating to all or most of the 11 S.O.s.

B. Estonia

Estonia is generally regarded as a major success story, though the credit for its rapid political and economic transformation appears to be largely due to its own good efforts and the enlightened assistance of Finland, its neighbor to the north. With FY 1995 as its last year of SEED funding, OAR/Tallinn was the first ENI Post to start the phase-out process.

The U.S. aid program that began in FY 1991 had grown to 88 activities by FY 1994. Although the decision to begin the Estonia phase-out was made in FY 1994, 15 *new* activities were launched that year. In FY 1995, three more *new* activities were started, even as other activities were being terminated and the phase-out went into high gear.

Many more activities were terminated in FY 1996, in "rather precipitous fashion," according to the last AID Representative, who departed Tallinn at the end of FY 1996. In his view, the phase-out was so quick that it is not reasonable to expect all of the remaining Strategic Objectives in Estonia to be fully achieved.

C. Latvia

Latvia's political and economic reforms *were* considered to be irreversible, which is why its last year of funding was FY 1996. However, in recent months there has been growing concern about slippage on both the political and economic fronts, and senior State and USAID officials are beginning to have second thoughts about the timing of the phase-out.

In FY 1994 -- when the phase-out started -- the Latvia program encompassed 11 Strategic Objectives and 75 activities. Nine *new* activities were nevertheless launched in FY 1994, and five more new ones were started in FY 1995. By ruthless slashing of old and new activities, the program was reduced to seven S.O.s and just under 30 activities by the end of FY 1996. But the AID Representative in Riga does not anticipate that they can all be fully achieved on the present phase-out schedule.

D. The Czech Republic

The political and economic transition in the Czech Republic is considered by knowledgeable observers to be irreversible. While there is some concern about the "shallowness" of the economic reforms, OAR/Prague is comfortable with the timing of its phase-out. It supported the decision last year to hasten the process by one year, because "the Czech Republic's transformation has been so swift and dramatic."

The Czech program began in FY1990 with more than 120 grantees and contractors working in every area of ENI activity. In early FY 1996, when the OAR was already well into its phase-out, it prepared its first document in the Results framework, an R-2 that included seven S.O.s. and 45 ongoing activities. While this represented a considerable program concentration, it left the Office with what it calls a "steep cliff" problem: there is still a very heavy workload in implementation and evaluation that will not let up until the final *close-out* at the end of FY 1997.

That being said, OAR/Prague does *not* consider its phase-out to have been precipitous, and, according to a senior staffer, it expects to "come close" in fully achieving all of its remaining seven S.O.s.

E. Lithuania

Any meaningful discussion of the current status of the phase-out in Lithuania (and the discussion of the phase-out in Hungary, the Slovak Republic and Poland which follows) must be based on an understanding of their last year of SEED funding. However, with the phase-out dates for these four countries still being closely held, the consultant was *constrained from mentioning those dates in this report.* All that can be said is that the programs in Lithuania and the other three countries will be phased-out no later than the year 2000.

The U.S. Embassy, OAR/Vilnius, and other major donors working in Lithuania all agree that, while the country appears to be on the right track, "the issue is still in doubt." Lithuania's democratic reforms at the national level are considered irreversible, but democracy is considered to be very fragile at the grass roots. There is even more concern with respect to Lithuania's economic reforms, which are characterized as "two steps forward and one step back."

The view in the Field is that Lithuania has been "unfairly lumped" with the other NT countries in terms of Washington's expectations for the pace of its political and economic transformation – that Washington doesn't seem to take into account that Lithuania was an integral part of the Soviet Union for more than 45 years, and that it was three full years behind its neighbors, e.g., Poland, in launching its reforms.

Lithuania was ranked relatively high on economic performance in the Bureau's initial Country Progress Monitoring system rankings. But, according to OAR/Vilnius, an update of those rankings -- which would take into account last year's serious banking crisis -- would drop Lithuania to the level of some of the less-advanced ST countries, like Bulgaria and Romania.

Earlier this year there was discussion in Washington of moving Lithuania's phase-out date *ahead* by one year. OAR/Vilnius fought this off and considers itself fortunate to have won the battle. In order to concentrate its efforts, the OAR reduced the number of its Strategic Obectives from nine to seven in FY 1995, and to only three in FY 1996. Two are in economic restructuring and the third relates to the democratic transition.

Whether or not the last three S.O.s will be fully achieved is considered an open question at the present time. A lot will depend on the outcome of next year's national elections. The number of active projects being implemented by the OAR was reduced from 44 two years ago to about two dozen at the present time. It plans to continue "pruning" projects that are not having much impact.

In sum, OAR/Vilnius has begun a *gradual* and orderly phase-out of U.S. assistance. But there remain serious doubts the "irreversibility" of Lithuania's reforms.

F. Hungary

The U.S. Embassy and OAR/Budapest are basically in accord with the scheduled phase-out date for their program. Hungary's political and economic reforms are considered to be irreversible.

However, in responding last June to the cable from Washington announcing the phase-out date, the U.S. Mission in Budapest said that it "concurred in that date," but went on to say: "Mission does believe that some residual activities will continue to need some form of financing and management," beyond the established phase-out date. What the message inferred was that, whereas U.S. assistance after the scheduled phase-out date is not *essential* in order to keep Hungary on the right track, it would be *desirable* to stretch out some of our aid activities, particularly in the general area of democracy and governance.

Over the past two years, OAR/Budapest has reduced the number of its Strategic Objectives from ten to five. The five that remain on the books are expected to be "mostly" achieved by the end of the phase-out period. Four are in the economic sphere, and the fifth relates to the democratic transition. OAR/Budapest reduced the number of its active projects from 52 to 27 over the past two years.

In sum, OAR/Budapest has also begun what appears to be a gradual and orderly phase-out. But there may be a request from the Field at some point for some exceptions to the established phase-out date.

G. The Slovak Republic

The economic reforms in the Slovak Republic are considered to be irreversible. The country's new market economy is doing very well: the private sector now accounts for up to 70 percent of GDP. In the words of one senior U.S. Embassy official: "whatever happens, the market forces will keep things moving."

The situation with respect to the Slovak Republic's democratic transition is somewhat less positive. Although the basic democratic reforms are in place, the present Government is said to have no respect for opposition views and parties, and is actually drafting anti-democratic legislation that would effectively stifle opposition.

OAR/Bratislava surprised the ENI Bureau earlier this year by offering to phase out a year *earlier* than Washington has established as the final funding year. This offer was contingent upon Washington agreeing to provide sufficient funding, in what the OAR proposed as the final funding year, for the Office to fully fund all of its remaining activities. At this writing the issue is still open.

OAR/Bratislava has highly concentrated its efforts for the remaining years of its phase-out period. Over the past two years, the number of Strategic Objectives was reduced to six.

Scores of low-impact activities, e.g., in the energy sector, were terminated and the number of on-going activities was reduced from 80 to 30.

In FY 1997, the Office will only be incrementally funding activities in support of three Strategic Objectives, two relating to the democratic transition and one in social restructuring. Barring the unforeseen, these three final S.O.s are expected to be largely achieved.

In sum, the phase-out in the Slovak Republic may end up on a somewhat faster track than Washington had initially envisioned, but not so fast that there appears to be any danger of the phase-out being "precipitous."

H. Poland

There is universal agreement that Poland -- which was the first central European country to start the process of transforming itself from a Communist state -- has largely completed a successful transformation process. The Government is committed to free market principles and the legal and regulatory framework for a market economy is largely in place. Democracy is viewed as "essentially secure" in Poland.

Senior State and USAID personnel (particularly in the Field) are, however, of two minds on the issue of how long U.S. assistance should be continued in Poland.

On the one hand, there is the view that the U.S. has already finished the basic job of helping to put Poland on an irreversible course. One senior U.S. Embassy official says that the U.S. should "declare victory" and terminate its assistance *right now*. A senior USAID officer mused that one could probably find more evidence of poverty in various urban and rural areas of the United States than Poland: "so why are we still here?"

That being said, neither the U.S. Embassy nor OAR/Warsaw recommends a precipitous phase-out. They accept the date set for the final year of SEED funding. Indeed, the U.S. Ambassador recently requested Washington's approval of a possible exception to the established phase-out date, i.e., up to $2 million of the funding planned for the last year would be carried over and obligated one year later. The exception is for more *time* for the U.S. to be seen as an assistance player, not more SEED money.

Over the past three years, OAR/Warsaw has terminated further funding for scores of activities which were either not doing well or were of not much interest to the Polish Government. The number of Strategic Objectives was reduced from 11 in FY 1994 to just three (with 45 on-going activities) in FY 1996. Two of the final S.O.s are related to economic reforms; the third relates to the democratic transition.

Poland is a very interesting case: whereas the argument can be made to phase-out U.S. assistance sooner, an exception may be granted to continue U.S. assistance beyond the established phase-out date! OAR/Warsaw still has a lot of useful work to do. Maintaining the present phase-out schedule would seem to be the best way of assuring an orderly phase-out.

I. Summing It Up

As recorded above, some of the ENI Bureau's Strategic Objectives in the northern tier countries may not be fully achieved. *But this should not be grounds for incrimination or despair.* On the contrary, the Bureau can take pride in the realization that its basic goals *at the strategic assistance level* have already been largely achieved in most of the northern tier countries.

With the exception of Lithuania and (lately) Latvia, where the situation is still somewhat in doubt, every NT country appears to be firmly established on the desired course. Their economic and political reforms are viewed as irreversible. (There are still tremendous problems, e.g. health care and pension reform, in the area of social stabilization, but the Bureau has never claimed that its limited resource allocations in the social sectors could ever adequately address these.)

The possibility that some Strategic Objectives in the NT countries may not be fully achieved can be attributed to three factors:

1) The early Bureau policy of launching literally scores of projects and hundreds of activities, relating to almost a dozen Strategic Objectives at most Posts. Given the unknown landscape, and the unprecedented challenge which the Bureau initially faced, some of these projects and activities were bound to fail. Enough of them have *not failed* to account for the Bureau's overall success;

2) The Bureau's later decision (for understandable bureaucratic reasons) to package its program in the Agency's new Results framework, even as some Posts were already starting their phase-out. This set up a situation in which there simply was not, or will not, be enough time for some Strategic Objectives to be fully achieved, because the initial S.O. level targets were predicated on a longer period than the established phase-out dates allow. No ENI Post should be faulted for this; and

3) There are still some serious *obstacles* to overcome, and potential *resource gaps* to close, in order for all of the S.O.s to be fully achieved. (These are discussed in Section IV.)

If there is any action that might be called into question, it is the haste in which the phase-out has been undertaken in Estonia, Latvia, the Czech Republic (and perhaps Slovenia in the southern tier). There are many who feel that more *time*, and perhaps a little more *money*, should have been allowed in order to get a few more things accomplished at those Posts.

The phase-out in the other four countries (Hungary, the Slovak Republic, Poland and Lithuania) is on a more gradual and orderly track, and it would be a mistake to speed up the process at those Posts. Each has had the time over the past two years to focus its energies and concentrate its resources on what it deems the most important tasks to accomplish within its prescribed phase-out period. Each needs its remaining years to complete its work and manage an orderly phase-out.

In order to assure an orderly phase-out in the southern tier and NIS countries, a similar concentration of their resources and energies is imperative. Some ENI Missions and Offices in these countries are still working against 8-10 Strategic Objectives and still funding and managing 60-80 activities.

They should be encouraged, as part of their next R-4 exercise, to undertake what might be called a programmatic *triage,* in order to: l) eliminate the Strategic Objectives which have the least chance of being achieved within the phase-out period; ideally, a Mission should be down to only two or three S.O.s by its last year of SEED or FSA funding; and 2) to terminate "low impact" activities, and only provide further funding to those activities that are clearly expected to contribute to the achievement of the remaining S.O.s.

These reductions in S.O.s. and activities should be part of a carefully developed Strategic Plan which assures a gradual and orderly phase-out process (and avoids the Czech Republic's "steep cliff" problem"). But the process of reduction and consolidation has to be undertaken, particularly in the ST countries of central Europe and the NIS region.

Recommendation # 4: That the ENI Bureau, in its guidance to the Field on the FY 1997 R-4 exercise, encourage its Missions and Offices to further reduce or consolidate their Strategic Objectives, terminate "low impact" activities, and concentrate further funding on those projects and activities which will have the highest potential payoff in the remaining years of their phase-out period.

IV. Major Obstacles and Resource Gaps

A. External Obstacles

Annex D is a composite list of the potential obstacles that might impede the Bureau in its efforts to achieve its Strategic Objectives in the CEE and NIS countries. Based on interviews with ENI personnel in Washington and the Field, as well as several recent cables from the Field, this is the situation with respect to the *external* obstacles that stand in the way of a successful phase-out in six of the seven northern tier countries of the CEE region:

- **Estonia:** Despite Estonia's rapid progress on transforming many of the nation's economic and political processes, the reconstruction of civil society is still considered to be "very much a work in progress." Estonia still faces major challenges in making participatory democracy more palpable at the grass roots.

- **Latvia:** Grass roots democracy has not really taken hold, and the planned decentralization of government authority and responsibility to the municipal level has not taken place.

- **Lithuania:** Heavy government borrowing, general mismanagement of the state's finances, a regressive tax structure, and a very weak banking and financial sector, are all serious obstacles which must *still* be overcome. Some of the legal and regulatory framework for the expansion of the private sector is still missing: a Competition Law, a Collatoral Property Law and a Central Registry system. The absence of enabling legislation for NGOs, and tax incentives for potential contributors, are cited among the obstacles to building civil society and strengthening democracy at the grass roots.

- **Hungary:** The legal and required regulatory framework in the banking sector is not yet in place, and there is serious concern about the Government's commitment to reduce social spending and restructure the tax system. Not enough people are getting involved in democracy at the grass roots.

- **The Slovak Republic:** Local institutions and civil society as a whole are weak, and there is very little citizen participation in the democratic process.

- **Poland:** Many local and regional institutions, particularly NGOs, and local and municipal governments are weak, and their financial sustainability is in doubt.

The Czech Republic is the only northern tier Post where there are not considered to be any external obstacles impeding a successful phase-out of U.S. assistance. The external obstacles at the other six NT Posts can be summarized as follows:

1) Weak local and municipal governments;

2) Weak civil society and lack of citizen participation;

3) Weak local and regional institutions;

4) Weak banking and financial sectors; and

5) The required legal and regulatory framework is not fully in place.

The first three obstacles can be generally grouped as obstacles to a successful democratic transition; #3 is also an obstacle in the area of economic restructuring. The fourth obstacle relates entirely to economic restructuring. The fifth relates primarily to economic restructuring as well; but it also relates to the democratic transition, in terms of the enabling legislation for effective operations and fund-raising by NGOs and other civic advocacy groups.

As previously stated, the ENI Bureau and the Office of the SEED Coordinator are anxious for the Field to identify "resource gaps," and to develop specific proposals for closing those gaps, if the Missions feel they have a solid case to present. These proposals could be for: 1) *additional funds*, i.e., an increase in the annual funding levels that Missions have been told they can expect to receive in the remaining years of their program; and/or 2) *additional time*, i.e., stretching out the phase-out period beyond the dates established last April, either in terms of funding or direct-hire staffing.

It was the consultant's expectation that there would be a direct link between the external obstacles cited by the northern tier Missions and their identification of resource gaps. If, for exampe, a weak banking sector was cited as a serious obstacle to the overall economic restructuring effort, then a potential resource gap might be the need for additional funds to keep U.S. Treasury or private sector financial advisors on the job for a longer period.

When specifically encouraged to identify resource gaps as part of this exercise, senior USAID personnel at the NT Posts visited came up with a relatively short list.

The two obstacles cited above in the general area of economic restructuring -- a weak banking sector, and the required legal and regulatory framework not fully in place -- are being assiduously addressed at every Post where they are a matter of concern. But there were no perceived "resource gaps" concerning these two obstacles. Indeed, *with the possible exception of Lithuania,* no NT Post anticipates a future need to request additional funds or more time in order to overcome these obstacles and achieve their related Strategic Objectives.

It is in the general area of the democratic transition -- overcoming the first three obstacles cited above -- that most of the NT Posts are planning to focus most of their attention and concentrate their resources in the waning years of their aid programs. And it is primarily in the democracy/governance (D/G) area that all of the NT Posts (with the exception of the Czech Republic) have indicated they foresee *potential* resource gaps, for which they may request additional time or money.

The first specific request of this kind came from Estonia last August, in the form of a joint cable from the U.S. Embassy and OAR/Tallinn which stated that "U.S. interests in Estonia indicate that we need to dedicate special resources to help the Estonians build a stronger civil society." The cable requested an additional allocation of $3 million to establish a "bi-national development foundation" to support training, exchanges and partnerships in areas "most central to partcipatory democracy," e.g., the media, NGOs and citizen advisory groups.

Washington rather quickly turned down this request, in a cable which said in part: "we note the agreed close-out and graduation structure for Estonia does not countenance the creation of a significant new foundation and no FY 1997 money has been budgeted for Estonia. To add a costly new activity at this time would call into question our close-out graduation agreements with the Administration and the Congress."

It may have been naïve for the Field to expect a more positive response, in view of the advanced state of the phase-out in Estonia. Nevertheless, the proposal seemed to have the blessing of the First Lady, who had recently visited Estonia, and it did come at a time when at least parts of the Washington bureaucracy seemed be encouraging the Field to identify resource gaps and request additional resources to close them. In any event, Washington may receive the same request from Estonia in a somewhat different form shortly.

In Lithuania, OAR/Vilnius currently has several consultants developing a proposal for providing an *endowment* to some local or regional institution which could serve as the *funding mechanism* for supporting democracy/governance activities that are designed to strengthen indigenous NGOs, local and municipal governments, and civil society as a whole. Both OAR/Tallinn and OAR/Riga are watching this development closely, and they may decide to piggy-back on OAR/Vilnius' initiative and make it a joint request for additional funds to endow an institution that could continue to support worthwhile D/G activities in all three Baltic States, well beyond their current phase-out dates.

It is fair to say that *every* Post in the northern tier would like to find some way to continue various types of D/G activities beyond their current phase-out dates. Thus far, the only specific proposals for doing so are those mentioned above. However, largely as a result of this exercise, the NT Posts have begun to think seriously about how this can be done, either by requesting additional time and/or money, or by reprogramming within their current OYB levels.

OAR/Budapest has cited the possibility of requesting "some form of financing and management" for "targeted activities in local governmenance and NGOs, certain partnerships begun during the USAID presence, key seminar/visits, and (strengthening) the International Law Enforcement Academy."

OAR/Bratislava sees one of its most important remaining tasks as overcoming the obstacles to a successful democratic transition in the Slovak Republic. Thus, while it is not anticipating the need for additional financial resources, it would not be averse to employing mechanisms which might stretch out its D/G activities for a longer period.

OAR/Warsaw has not yet identified any resource gaps for which it may request additional funding. However, if additional funds *were* made available on some sort of an incentive basis, it would seriously consider using them to further its on-going D/G activities.

Irrespective of their potential requests for additional resources, the four NT Posts which are just starting their phase-out -- Lithuania, Hungary, the Slovak Republic and Poland -- are all giving serious consideration to the potential *mechanisms* for sustaining their D/G work, and leaving strong local and regional institutions behind. (The pros and cons of the various mechanisms that they might employ are addressed in Section V).

Aside from its intrinsic value, there are several other arguments for potentially stretching out U.S. democracy and governance assistance. One is that the other major donors have never been as enamored of D/G activities as the U.S. They contributed in the early days to the establishment of the basic democratic institutions and political parties at the national level. But they are not actively involved in building democracy at the grass roots. D/G is an area in which the U.S. has clearly demonstrated a comparative advantage.

Secondly, promoting grass roots democracy in the former Communist countries has a nice ring to it, and it is probably more likely to be supported by the American public and the Congress than any other form of assistance which the U.S. might wish to continue for a longer period.

* * *

What are the *external* obstacles and resource gaps in the southern tier and NIS countries? Based solely on discussions *with ENI personnel in Washington*, the same five obstacles cited by the NT Posts are also of concern at the ST and NIS Posts, particularly those in the area of democracy and governance.

However, there are said to be other serious obstacles in the other ENI countries as well. They include crime and corruption, ethnic strife and the potential resurgence of a Communist regime. (The latter occurrence would be more likely to trigger an *earlier* phase-out of U.S. assistance than be the basis for prolonging it.)

Just how seriously ST and NIS personnel in the Field view these obstacles is not known. Nor is it known what they would classify as resource gaps which must be closed before they can achieve a successful phase-out. For that matter, it is not even known if they are aware that the ENI Bureau is willing to consider Field requests for exceptions, in terms of time or money, to close legitimate resource gaps. *This was not understood at some northern tier Posts until this exercise came along.*

Recommendation # 5: That the ENI Bureau, in its guidance to the Field on the FY 1997 R-4 exercise, assure its Missions and Offices that: a) it is anxious for them to identify potential resource gaps; and b) it is willing to consider well-document requests from the Field -- as part of the Strategic Plan and R-4 process -- for additional time and/or money to close those gaps.

Recommendation # 6: That (as a corollary to Recommendation # 5) the ENI Bureau notify its Missions and Offices that it would particularly look favorably upon Field requests for additional time and money to address resource gaps in the general area of democracy/governance, in order to strengthen civil society at the grass roots.

B. Internal Obstacles

The initial obstacles list that was developed as part of this exercise only covered *external* obstacles. As the consultant began to interview ENI personnel, however, it became apparent that they see some serious *internal* obstacles as well. These can be defined as bureaucratic obstacles of USAID's own making that are impeding *an orderly phase-out process* in the Field.

The main internal obstacle which concerns OAR/Tallinn is the recent departure of the last AID Representative. Although OAR/*Vilnius* has been delegated the authorities and responsibilities for all residual USAID work in Estonia (as well as Latvia), the departing AID Rep felt strongly that one FSN/PSC should be retained in Tallinn to handle project monitoring and evaluation chores for seven residual activities, for at least one year. At this writing, Washington has not yet acted on this request.

The same obstacle is of concern to OAR/Riga. With the last AID Rep scheduled to depart by the end of FY 1997, and six activities continuing well into FY 1998, OAR/Riga will also be officially requesting that one FSN/PSC be allowed to remain on the rolls for an extra year.

According to the last AID Reps in Latvia and Estonia, another serious internal obstacle which they both had to face (and were never able to fully overcome) was the paucity of accurate pipeline data (commitments, obligations and disbursements) available to them in their efforts to plan and implement an orderly phase-out.

OAR/Vilnius, which is taking on the responsibility for the residual activities in Estonia and Latvia, is concerned about its ability to effectively do so with its own small staff; it therefore supports the proposition that one FSN should be retained in Tallinn and Riga for at least one year after the AID Reps depart. OAR/Vilnius is also concerned about the lack of timely pipeline data in the Field.

OAR/Prague cites the following as internal obstacles: retaining and retraining local staff; obtaining outside assistance in monitoring residual activities and conducting financial evaluations; and handling record and inventory close-outs.

Although OAR/Budapest has reduced its ongoing activities from 52 to 27 over the past two years, it is still concerned that it is responsible for too many management units, in relation to the size of its U.S. and local staff. And it is concerned about several other internal obstacles: implementation of the Agency's new Management System (NMS) in the midst of the phase-out; lack of accurate financial data from Washington, particularly with respect to the pipeline on projects managed by the ENI Bureau, and activities being implemented through SEED transfers to other U.S. Agencies.

OAR/Bratislava considers the main internal obstacle to an orderly phase-out to be the heavy workload imposed on the Field by Washington's "ever-changing" reporting requirements, and urges the ENI Bureau to settle on one reporting system for the duration.

OAR/Warsaw's list of internal obstacles includes: the lack of accurate pipeline data, particularly on SEED transfers to other U.S. agencies; the confusion and burden imposed on the Field by the requirement to continue to report *outputs* in the New Management System and to report *results* in the new Results Framework; and the Agency's procurement policies, which deny the Field the flexibility it needs to terminate or curtail the activities of contractors and grantees as part of the phase-out process.

In sum, the *internal* obstacles to an orderly phase-out that are cited by personnel in the seven northern tier countries (and seconded by many ENI personnel in Washington) are as follows:

1) Overall staffing constraints, and retaining and training local personnel in the waning years of the phase-out period;

2) The paucity of accurate pipeline data in the Field;

3) The heavy (and confusing) reporting burden imposed on the Field; and

4) The inflexibility of the Agency's procurement policies and procedures.

The first obstacle constitutes a *resource gap*, mainly in terms of Operating Expense (OE) funds to cover overseas personnel and their related support costs. As mentioned earlier, the ENI Bureau's efforts to achieve an orderly phase-out (and *close*-out) will depend in large part on its ability to obtain adequate levels of OE funding (and therefore staffing) from the M Bureau, particularly in the last several years of the program at each Post.

In this connection, the ENI Bureau might be well advised to *begin now* to develop overall projections of its required staffing levels in the Field in the remaining out-years, rather than wait for those requirements (and their related OE costs) to be identified relatively late in the game as Missions prepare their *close-out* plans. (Such staffing projections will be required in any case, if the Bureau decides to go ahead with the establishment a Regional Mission in the Field, as recommended in Section VI).

As regards the second internal obstacle, there has been an effort underway for many months in the ENI Office of Project Development to design a system for providing accurate financial information to the Field. The system has generated an initial set of pipeline data (as of 6/30/96) for the CEE Posts, but similar data for the NIS.Posts is still being developed. Moreover, the data thus far produced is deficient in terms of country-level reporting for regional projects. At this writing, the Bureau's effort to improve the pipeline data situation still has a long way to go, including the development of computer software that will enable the Missions to communicate electronically with the Bureau in exchanging pipeline data.

There is not much more that can be said in this report about the *internal* obstacles, other that they loom as serious impediments to an orderly phase-out and that they need to be taken seriously by the ENI Bureau.

Recommendation # 7: That the ENI Bureau continue to assign a high priority to the effort to provide accurate and timely pipeline data to the Field; and that the other internal obstacles identified in this exercise be formally addressed by the Bureau's Graduation Advisory Committee.

V. Mechanisms for Sustaining Assistance

The Agency guidance on "Strategies for Sustainable Development" issued in May of 1994 says that "development is sustainable when it permanently enhances the capacity of society to improve the quality of its life; sustainable development enlarges the range of freedom and opportunity, not only day to day but generation to generation."

The ENI Bureau has stressed sustainability in the design and implementation of its programs and projects. What are the mechanisms that some ENI Missions (and some Missions in other geographic regions) are currently employing in order to sustain the benefits of their assistance and continue the momentum of the reforms which that assistance has fostered? What are the pros and cons of these mechanisms for potential use by other ENI Missions, which are in the early stages of their phase-out process? Which are the most appropriate mechanisms to employ in addressing the kinds of obstacles and resource gaps identified in Section IV?

In the course of this exercise, 15 potential mechanisms have been identified and examined. They are not mutually exclusive: it is possible, even desirable, to employ several different mechanisms to achieve a particular objective, e.g., strengthening a host country institution. The 15 mechanisms are also overlapping in their characteristics, which makes them very difficult to group into discrete categories.

The first five mechanisms are best described as *alternate sources of funding*. Four of these have the virtue of being cost-free to the ENI Bureau, i.e., they involve *getting others* to continue to fund activities or pay for services currently being funded from the SEED or FSA accounts. The fifth -- harnessing the reflows from the Enterprise Funds -- represents a huge potential source of funding to continue worthwhile projects and activities well beyond the ENI Missions' phase-out dates.

The other ten mechanisms all come with a price: if employed, they would have to be funded from the SEED or FSA accounts, or some other funding source available to the ENI Bureau. (One of these sources could be the reflows from the Enterprise Funds.)

For presentation purposes, these latter ten mechanisms have been grouped into three sub-categories: 1) funding mechanisms; 2) delivery mechanisms; and 3) hybrids, i.e., mechanisms which are both a means of *achieving* a desired result and a desired result in themselves. Included in the "hybrids" category are strengthening host- country and regional institutions and establishing long-term partnerships.

A. Alternate Sources of Funding

1. Leveraging Other U.S. Departments and Agencies

Virtually every major U.S. Department and agency receives a transfer of SEED and/or FSA funds to serve as an ENI implementing partner and manage activities in central Europe and the NIS countries. Some of these activities may be considered very worthwhile in terms of sustaining U.S. assistance after SEED and FSA funds run out. One obvious way to keep those activities going is to convince the other U.S. agencies to continue to fund them from their own budgets.

There was an effort by the Administration to have all of the other agencies fund *all* their current SEED and FSA-funded activities themselves, starting in FY 1997. But that proposal was vetoed by the other agencies' Congressional Appropriation Committees.

Some agencies, like the Department of Commerce, are said to be going for a 50-50 split with SEED funding in FY 1997. The Department of Energy is starting to provide its own funds in the area of nuclear safety, starting in FY 1997. One split funding arrangement was agreed to in FY 1996: the activities of the State Department's Bureau for International Narcotics and Law Enforcement Affairs are now 60-40 from the INL and SEED accounts, respectively.

There has only been a limited dialogue thus far between ENI Bureau personnel (in both Washington and the Field) with personnel of the other agencies on the possibility of their continuing to fund activities which are deemed especially worthwhile. One reason, in Washington, is that the ENI Bureau (based on the Congressional response mentioned above) is not very optimistic about the possibility of other agencies picking up the funding for even a few activities. Another is the tight hold that's being held on the Bureau's phase-out plans.

Interviews with senior personnel of some these agencies *in Washington* revealed that: a) they are anxious to learn the details of the Bureau's phase-out schedule, and b) some of them are *thinking* seriously about the possibility of continuing to fund some activities themselves in the future.

Commerce Department officials say they have every intention of continuing to fund and *expand* their two very successful Business Centers for central Europe and the NIS countries, which are now entirely SEED and FSA funded. They are optimistic that Congress will go along.

Justice Department officials say they want to keep their advisors in Poland, the Baltic States and Russia, to work with local law enforcement officials on crime and corruption. They believe that the strong U.S. political interest in this area may lead Congress to go along with funding the advisors from their budget.

At the **Treasury Department** there is talk of finding the funds from their budget to continue to provide financial and tax advisors, particularly in central Europe. The possibility of providing new technical assistance in capital markets and security exchanges development is also being discussed.

At the **Environmental Protection Agency (EPA)** there is the expectation that there is such strong domestic political support for environmental *security* activities that they may find the funds within their own tight budget to continue some work in both the CEE and NIS countries.

Officials at the **United States Information Agency** say that their own budget is under such pressure that there is little likelihood that they will able to contribute any of their own funds to continue SEED-funded activities at current levels. Of the seven programs that are now SEED-funded, most are expected to be eliminated entirely, including teaching English, management training, participant training, the Graduate Fellowship program, educational reform, and the Democracy Commission small grants. Only the speakers program is expected to be continued with USIA money, but at pre-SEED levels.

Officials at the **Overseas Private Investment Corporation** say they have no plans to continue to fund the trade missions which had been SEED-funding. But they expect the **Trade and Development Agency** to fund these trade missions in the future.

OPIC expects to *increase* the volume of its normal business in central Europe and the NIS countries (which is not SEED or FSA funded). In FY 1995 this amounted to $1.5 billion in investment guaranties and $500 million in commercial loans. The insurance business is said to be declining in the NT countries, given their stability. But it is booming in other countries, e.g., Russia and Romania.

Overseas, interviews with representatives of other agencies revealed that they generally mirror the views of their headquarters: a) many are not actually aware when their SEED funding will run out; and b) and most say it would be nice if they could find the funds in their own budgets to continue at least some of the work which they are now doing with SEED money.

In the Czech Republic, the **Nuclear Regulatory Commission** is already funding its own work on the Tremeline Nuclear Plant. The **EPA** is establishing some Internet connections with local environmental groups with its own funds. **USIS** has plans "within its means" to continue some ongoing efforts to develop and strengthen local institutions and NGOs.

At other NT Posts, which are not as far along as the Czech Republic in its phase-out, there are no concrete examples of other agencies continuing any activities with their own funds. The **Peace Corps** Director in the Slovak Republic said that his agency is highly unlikely to be able to pick up the funding for any of its SEED-supported activities, either in Slovakia or any other Post.

Discussion of this potential mechanism with ENI personnel in the Field drew a very mixed response. At some Posts there is more concern about the need to *curtail* some agencies' present SEED funding, because their activities are not having much impact. Indeed, there is frustration in the Field that some other agencies' activities are allegedly only being continued because they have domestic political support.

Secondly, while USAID officials believe that many of the activities currently being implemented by the other agencies *are* producing important results, they do not see the need for many of those activities to be continued, even if the other agencies are willing to fund them. A notable exception is OAR/Vilnius, which would be pleased if USIS, the EPA, and the Departments of Justice and Energy would be able to continue their present work with their own funding after their SEED fund runs out.

USIS is the one agency which most NT Posts would be particularly pleased to have stay on, in order to continue its work in implementing democracy/governance activities, e.g., its democracy networks and small grants programs. This tracks with the previous discussion about the universal desire in the NT countries to find ways to continue to support D/G activities, in order to address the kinds of obstacles, e.g., weak local and municipal governments, weak civil society, weak host-country and regional institutions, that they are trying to overcome in the waning years of their program.

At Posts where a weak banking and financial sector remains a serious obstacle, there is support for the Treasury Department advisors to stay on longer, if the Treasury Department will fund them.

Here are the pros and cons of this mechanism:

Pros: It is cost-free to the ENI Bureau and provides a means of continuing worthwhile activities beyond the phase-out period. Some U.S. Departments and agencies are already starting to fund their own activities. Many of the others are giving serious thought to doing it as well.

Cons: There does not appear to be a great demand – at least on the part of ENI personnel in the northern tier Posts – to employ this mechanism, except in the case of USIS and Treasury. The other U.S. Departments and agencies will be hard-pressed to obtain the necessary funding through their own budget process. Even if they are successful, the sums involved could be very modest.

In sum: This mechanism appears to have moderate potential -- more than the ENI Bureau seems to realize -- for being successfully employed, particularly in addressing external obstacles and potential resource gaps in the strategic assistance area of economic restructuring. It appears to have less potential in being applied to the democratic transition, although this is precisely the area in which most NT Posts would most like to see this mechanism employed.

Recommendation # 8: That the ENI Bureau, as it formally communicates its phase-out plans to officials in the Washington headquarters of all U.S. Departments and Agencies serving as it implementing partners, also enter into a dialogue with those agencies on the potential for their continuing to fund activities that are currently SEED or FSA funded.

Recommendation # 9: That all ENI Missions and Offices in the Field formally communicate their phase-out plans to all the representatives of other U.S. Departments and agencies at their Post, and enter into a dialogue with them on activities which USAID (or the agencies themselves) would like to see continued with those agencies' funds.

B. Leveraging Other Donors

The term leveraging is often used to describe the process of convincing other donors to provide "matching" funds in order to share the cost and increase the overall funding for worthwhile projects. The ENI Missions and Offices have had some success in leveraging matching funds from other donors.

For example, OAR/Prague has provided technical assistance grants to the World Bank to leverage large capital investments by the Bank. It has also leveraged matching funds from the Mott Foundation, CIDA and EU/PHARE to support the Donors Forum, which coordinates all donor/NGO aid in the Czech Republic. OAR/Vilnius has been leveraging a number of other donors (Sweden, Germany, EU/PHARE and the World Bank) to provide matching funds in the area of Small and Medium Enterprise.

As the term leveraging is used here, it means convincing other donors to pick up the entire funding (not just a share of the cost) of certain USAID activities as their SEED and FSA funding run out. A moderate amount of this kind of leveraging has already been successfully employed -- or is being seriously considered -- in the northern tier Posts. As described below, much of this leveraging addresses the specific obstacles, e.g., weak regional institutions and a weak banking and financial sector, which the NT Posts are striving to overcome.

In Hungary, OAR/Budapest has convinced EU/PHARE to provide substantial funding to the Regional Environmental Center, as SEED funding phases out.

In the Czech Republic, OAR/Prague convinced EU/PHARE to begin this year to pick up the tuition and other costs of students from other CEE and NIS countries attending the Czech Management Center and the Center for Economic Research and Government.

Education. Canada and the Ford Foundation have agreed to provide grants to the Czech Management Center, in lieu of further SEED funding. The EBRD may pick up the funding for some SEED-funded activities in municipal finance, which would otherwise have terminated this year.

In the Baltic States, Sweden has begun to pick up a major portion of the cost of nuclear safety projects previously SEED-funded.

OAR/Bratislava is hoping to get EU/PHARE to continue some of its D/G activities, perhaps using the OAR's model for making grants to NGOs. There is also the possibility that EU/PHARE may pick up some of OAR/Bratislava's technical assistance in financial accounting.

OAR/Warsaw says it is "already marketing our portfolio" with EU/PHARE, and hopes it will pick up the funding for some SEED activities in strengthening local government and municipalities.

OAR/Riga reports that EU/PHARE has picked up the funding for small grants to NGOs. OAR/Tallinn reports that EU/PHARE is picking up some of the funding for credit union activities, small D/G grants and bank supervision.

OAR/Vilnius is hopeful of convincing one or more other donors (Sweden, Norway, Denmark, the UK and/or EU/PHARE) to continue to fund its current activities in banking supervision and capital markets development.

All indications are that EU/PHARE is the donor with the most available resources, and the one that is most open to suggestions on USAID activities that it might continue with its funding. As mentioned earlier, the EU intends to focus much of its aid in the coming years on helping the central European countries prepare for entry into the EU. This includes meeting the EU's strict democracy and human rights standards. Thus, here is a potentially good match: some of USAID's SEED-funded D/G activities could be passed on to EU/PHARE.

Sweden is the bi-lateral donor that appears most likely to be willing to pick up the funding for USAID activities, though only in the Baltic States, Belarus and Russia. A Swedish diplomat in Lithuania suggested that the AID Representative in Vilnius travel to Stockholm to meet with Swedish aid officials to discuss the possibilities, which might be focused in the D/G area.

World Bank and EBRD representatives, while holding out no promises, say that they would welcome discussions with USAID personnel on this subject.

Germany, which is a big donor throughout central Europe and the NIS countries, does not appear to be a good prospect for employing this mechanism. German aid officials in Bonn say that their own budget constraints are such that there is "absolutely no possibility" of their picking up any USAID activities. They expect their people in the Field to be looking for other donors to pick up some of *their* activities.

These are the pros and cons for this mechanism:

Pros: It is cost-free to the ENI Bureau and provides a means for continuing worthwhile activities beyond the phase-out period. There are several donors, the EU/PHARE, Sweden, and perhaps the EBRD and the World Bank, which appear to have both the resources and the inclination to consider picking up and funding USAID activities, particularly in the D/G area.

Cons: Most of the other bi-lateral donors do not appear to be willing candidates for the employment of this mechanism. EU/PHARE has large pipelines in many countries, and thus may not be able to effectively absorb additional projects and activities that were previously funded by the U.S.

In sum: This mechanism has moderate potential for being successfully employed in addressing external obstacles and resource gaps relating to both the democratic transition and economic restructuring.

Recommendation # 10: That all ENI Missions and Offices actively "market" their portfolios with other donor representatives in the Field, in an effort to convince them to pick up and continue funding some USAID activities after the phase-out.

Recommendation # 11: That the ENI Bureau initiate formal talks at the headquarters level with three multi-lateral agencies (the World Bank, the EBRD and EU/PHARE) in order to: a) communicate USAID's phase-out time-table in all the CEE and NIS countries; and b) to urge those agencies to direct their Field representatives to be open to proposals for picking up the funding of some USAID activities.

C. Leveraging the Global Bureau

The Agency's central Bureau for Global Programs, Field Support and Research (G) has a substantial budget for funding world-wide projects and field support and research activities. Could the ENI Bureau leverage some of those funds in order to continue some of its activities in the post phase-out period?

ENI and G Bureau personnel point out that there has not been a great deal of collaboration between the two Bureaus over the years. As seen from the G Bureau, ENI "has tended to be an autonomous Bureau." As seen from the ENI Bureau, there has not been much need to draw on the G Bureau's resources, except for "buy-ins" to its central projects, which supply contractors and grantees in the social sectors. ENI personnel do not envision G continuing to *fund* some activities after the ENI phase-out. A senior G Bureau official stated that G simply won't have the funds to keep SEED or FSA-funded activities alive.

That being said, senior officers of the G Bureau's Environmental Center feel that continued efforts on environmental constraints to sustainable development, such as climate change, biodiversity, and urban air and water quality, will be fundamental to long-term U.S. interests in some of the ENI countries, and that the allocation of some G "core" funds will be necessary to promote those interests.

In sum: there's no need to bother with a listing of the pros and cons of this mechanism. It clearly has limited potential for being successfully employed in addressing the external obstacles or resource gaps in any of the ENI Bureau's three strategic assistance areas. Whether or not the G Bureau will be able to find the program and OE funds necessary to promote *its own agenda* in the ENI region after the ENI presence ceases is an open question.

D. Reimbursable Technical Assistance

Many SEED and FSA-funded activities, particularly those being implemented by other U.S. agencies and private contractors, involve the provision of technical assistance: sending host country officials to the United States on various training programs, and providing U.S. advisors to the host countries. A portion of this could be continued in the post phase-out period, if the host countries were willing to pay for it, i.e., reimbursable technical assistance.

In the Czech Republic, there is already some reimbursable TA going on. The Czech Government is buying banking, business restructuring, and energy pricing policy services directly from four U.S. firms whose initial advisory work was SEED-funded. The relationships between the Czech Government and the American companies is a direct one. OAR/Prague may have helped establish the relationship, but USAID plays no further role as an intermediary in providing the reimbursable TA.

Five CEE countries are now providing modest sums to support a budding Energy Information Network that exchanges information on how their utilities are performing and maintains electronic links with their U.S. counterparts.

In the Slovak Republic, the Peace Corps says the Economics Ministry is talking about buying services from the current SEED-funded European Business Development Project.

The Central Bank may pay for technical assistance in banking supervision, and the Slovak Electric Power Company may wish to buy TA from American private sector energy sources.

In Lithuania, the Central Bank and the Stock Exchange are considered to be serious candidates for reimbursable technical assistance. The Central Depository has already begun to fund advisors from an American firm after their SEED-funding was terminated.

Nevertheless, there is a healthy skepticism at most NT Posts about the potential host-country demands for reimbursable TA, particularly if it involves USAID acting as the intermediary, i.e., the host country comes to USAID for help, USAID does what it takes to provide the TA, and the host country reimburses USAID. Most countries are said to lack the resources to pay for the TA which they are now receiving from U.S.

Moreover, if the countries had the funds, they would probably prefer to obtain the TA directly from the source; and that source is more likely to be in nearby Europe than the U.S. And, if they don't have the funds (but want to buy technical assistance from private sources) they can always turn to such donors as the World Bank and EU/PHARE to provide the funding.

Reimbursable technical assistance with USAID acting as the intermediary has its limitations. The more promising method appears to be the one that has worked in the Czech Republic, i.e., USAID encourages a direct, continuing relationship with former suppliers of SEED or FSA-funded services. It should be noted that: 1) most of the on-going or potential reimbursable TA mentioned above is in the general area of economic restructuring, i.e., addressing the obstacle of a weak banking and financial sector, or continuing links in the energy sector; and 2) all of it is *with the private sector.*

Here are the pros and cons of this mechanism:

Pros: It is cost-free to the ENI Bureau and provides yet another way to continue worthwhile SEED and FSA-funded activities beyond the phase-out period. Moreover, it has the added plus of maintaining professional links between public and private institutions in the U.S. and host countries, and providing business opportunities for U.S. firms.

Cons: The host countries may not be able to afford much reimbursable TA. If they can afford it, they may go to European sources; if the can't, they may simply turn to some other donor to pay for it.

In sum: Based on experience to date, this mechanism has moderate potential in the general area of economic restructuring, e.g., in addressing such external obstacles as a weak banking and financial sector. It appears to have only limited potential in the other strategic assistance areas.

Recommendation # 12: That all ENI Missions, as they enter into a formal dialogue with the host country on the phase-out, encourage their counterparts to consider obtaining technical assistance -- from U.S. private sector sources -- on a reimbursable basis.

E. Enterprise Funds

The SEED and FSA legislation authorized the establishment of eleven Enterprise Funds to promote private sector development through the use of loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, and investment guarantees. The Funds have been the single largest recipient of SEED and FSA funding. As the following table shows, they constitute a substantial mortgage of almost $600 million.

	Committed ($000)	Obligated ($000)
The Polish-American EF	264.0	256.5
The Hungarian-American EF	70.0	70.0
The Czech-Slovak EF	65.0	65.0
The Bulgarian-American EF	55.0	31.1
The Baltic-American EF	50.0	24.6
The Romanian-American EF	50.0	20.5
The Albanian-American EF	30.0	11.8
The Slovenian-American EF	2.0	0
The Russian-American EF	440.0	160.0
The Central Asian-American EF	150.0	60.0
The Western NIS-American EF	150.0	45.0
EBRD SBF (Russia)	30.0	9.0
U.S./EBRD (Russia)	20.0	20.0
	$1376.0	**$782.5**

The last two named are not American Enterprise Funds, but U.S. contributions to EBRD Funds. With the U.S. program in Slovenia already phasing out, there are no plans to obligate any of the authorized funds and establish an Enterprise Fund in that country.

According to a recent ENI briefing paper, the ten Funds that have been established have produced some significant results, e.g., the establishment or strengthening of some 6,300 enterprises, the creation of at least 18,000 new jobs, and the establishment or strengthening of host-country institutions, particularly in the financial sector.

That being said, *some* of the Funds have had very serious start-up problems. These problems have been mainly in the management of three of the first four Funds to be established: the Hungarian, Bulgarian and Czech-Slovak. The problems in the Czech Republic were so severe (and drew so much public criticism) that the Czech portion of the Czech-Slovak EF was abolished.

On the other hand, the fourth of the first Funds to be established -- the Polish-American EF -- is considered to be working splendidly; indeed, it is considered by some ENI personnel to be the *only* Fund that is successfully fulfilling its mandate. Other ENI and State personnel feel that this is an unfair judgment, because the other six Funds have not been in operation long enough to fairly evaluate their performance.

In any event, the Funds' problems and critics notwithstanding, it seems clear that the Funds are here to stay. The management problems in Bulgaria and Hungary are being addressed, and the Administration and the Congress appear committed to honoring a *Presidential commitment* to pay off all or most of the "mortgage" on the eight Funds that are not yet fully-funded.

This means that the Funds will continue to be the largest recipient of SEED and FSA resources in the waning years of the ENI program. If all of them can begin to perform at the level of the Polish Fund, then they can play an important part in leaving a meaningful U.S. legacy behind, in terms of a thriving and expanding private sector.

More importantly, in terms of this exercise, it is clear that the reflows from the Funds represent a huge potential resource that can be used for many years after the phase-out of other SEED and FSA-funded assistance.

The legislation that authorized the Funds provided that they would begin to be liquidated 10-15 years from their incorporation. The main assets to be liquidated would be the money that they collect over the years in repayment of their loans, minus what they spent on overhead costs. But there is nothing in the legislation that mandates the disposal of the resulting reflows.

Informal discussions between State/USAID and the Congress over the past several years have established the "principle" that some of the reflows need not be returned to the U.S. Treasury, and these could be used for "charitable purposes" in the host country. The possibility of the Funds themselves being endowed in perpetuity with the reflows was *not* considered to be an option.

What's at stake here is a great deal of money. Assuming the Funds are all fully funded, then the starting point is $1.376 billion! How much of that amount may eventually be translated into reflows is anybody's guess, but it will clearly be in the hundreds of millions.

The Polish-American EF will be the first to be liquidated, and decisions on its fate will no doubt set the precedent for what happens to the reflows from the other Funds. Over the past several months there has been intense activity in Warsaw and Washington to develop a State-USAID position on the reflows question, with an estimated $136 million in reflows from the PAEF at issue.

Many U.S. Embassy and USAID "think pieces" are being circulated on: a) how much of the reflows should be returned to the Treasury; and b) assuming all are not returned to the Treasury, how they should be reprogrammed in Poland. At this writing, no firm decisions appear to have been made on these questions.

One view expressed in some of the papers that have been written on the use of the Polish reflows is that they should be used mainly for "the same purposes for which the funds were originally allocated," i.e., private sector development. The view here is that a more important and imaginative use of the reflows would be *to use them primarily to sustain the democratic transition throughout the ENI region.*

As previously discussed, weak local and municipal governments and weak civil society at the grass roots are considered to be among the most serious *obstacles* and potential *resource gaps,* as the ENI Missions plan their phase-outs and contemplate what they can leave behind. Many of the schemes that Posts are considering in terms of a legacy revolve around building civil society, e.g., the proposed Foundation to further D/G activities in the three Baltic countries, *if the necessary funds can be found.*

Using the reflows for a panoply of D/G activities would appear to have merit on many grounds: 1) as already mentioned, it would fill what appears to be a yawning gap; 2) it has the U.S. continuing to work in an area in which it has a comparative advantage, and in which other donors don't have much interest; 3) furthering the cause of democracy in the CEE and NIS countries has public relations appeal; it would probably resonate more than continuing to work in the private sector; and 4) there are many other sources of funding and support for private sector development.

The D/G activities which the reflows could potentially finance would include: continued support for the Democracy Commissions and Democracy Network; local and municipal government capacity-building; expanding civic education, particularly in the area of public administration; strengthening indigenous NGOs and other advocacy groups; expanding the role of the media; and generally stimulating citizen participation at the grass roots.

Much of this support would be in the form of training, exchanges, seminars and workshops and institutional development. The pros and cons of the various *delivery* mechanisms that might be employed in reprogramming the reflows are discussed in Section V.D. The pros and cons of the Enterprise Funds can be stated as follows:

Pro: The ten Enterprise Funds -- particularly if they can all begin to perform at the level of the Polish EF -- can play a crucial role in leaving a meaningful U.S. legacy behind in the ENI countries, particularly in terms of a thriving and expanding private sector. Moreover, the reflows from the Funds constitute a tremendous new resource that can be used to further the ENI Bureau's aims for many years after the phase-out of SEED and FSA-funded assistance.

Con: Some of the Enterprise Funds have had serious problems in fulfilling their mandate, and critics of the Fund concept question the wisdom of investing such a large portion of the available SEED and FSA resources in the Funds.

In sum: Their problems notwithstanding, the Enterprise Funds are here to stay. They represent a huge *current* resource, especially in terms of private sector development and overall contributions in the area of economic restructuring. The reflows from the Funds represent a huge *potential* resource for continuing worthwhile ENI activities *in all three strategic assistance* areas after SEED and FSA resources are exhausted.

Recommendation # 13: That ENI personnel accept the fact that the Enterprise Funds are here to stay and do whatever they can within their limited power to help the Funds improve their overall level of performance and better fulfill their mandate.

Recommendation # 14: That the ENI Bureau support the proposition that the reflows from the Enterprise Funds should be used primarily to sustain the democratic transition throughout the ENI region.

Before leaving this section on *alternate sources of funding*, the following table may be of some interest. It shows which of the alternate funding sources are currently {C} being successfully employed -- or have the potential {P} for being employed -- in addressing the external obstacles (and related resource gaps) which were identified by the ENI Posts in the northern tier countries.

Table # 1: Alternative Sources of Funding for Addressing the External Obstacles Identified in the Northern Tier Countries

	Weak Local/ Munic Govt	Weak Civil Society	Weak Country/ Reg Institutions	Weak Bank/ Fin Sectors	Legal/Reg Framework
1. Leveraging U.S. Agencies	C	P	P	P	C
2. Leveraging Other Donors	C	C	C	C	P
3. Leveraging the G Bureau	-	-	-	-	-
4. Reimbursable Technical Assist	-	-	P	C	C
5. Enterprise Funds: Current	-	-	C	C	C
6. Enterprise Funds: Reflows	P	P	P	P	P

The above table only shows the current and potential applicability of the alternative sources of funding in the relatively narrow context of the obstacles identified in the northern tier countries. Their potential applicability in addressing obstacles (and resource gaps) across-the-board, i.e., in all three strategic assistance areas, summarized in Table # 5 on page 63.

B. Funding Mechanisms

1. Bridging Funds

The purpose of this mechanism is to provide funds from the U.S. to a host country institution in order to enable that institution to *bridge a financial gap* until it receives promised further funding from some other source, normally another donor. That institution might be a host country or regional institution in the public sector, or any number of private sector institutions, e.g., NGOs or other civic advocacy groups.

The normal time to employ this mechanism would be in the last year or two of SEED or

FSA funding. It does not appear to have been used in the four CEE countries which are furthest along in their phase-out, i.e., Estonia, Latvia, the Czech Republic and Slovenia. Only two examples of the use of this mechanism were identified in the course of this exercise.

One is in the NIS region: USAID/Moscow provided bridging funds to the Mroozov Training Institute, whose funding from private Scandanavian resources was running out, until a new donor could be found. This is actually a unique example of how this mechanism can be used. The U.S. (FSA) funds were used to bridge a gap between *two other donors*, as opposed to the normal usage of this mechanism, which would be to bridge a financial gap between U.S. assistance and that of another donor.

The other example of how this mechanism has already been used is in Lithuania, where OAR/Vilnius provided bridging funds in FY 1996 to carry over a contract for TA in energy pricing until EU/PHARE assumes the funding for the contract in late FY 1997. The other NT Posts have not yet given much thought to the employment of this mechanism.

Indeed, at most NT Posts there is a healthy skepticism about the wisdom of providing bridging funds, and several valid questions are raised. How reliable is a deal in which another donor agrees to provide funding for an institution in a year or two? And is the provision of bridging funds a desirable use of ENI's scarce SEED and FSA funds?

Moreover, there is grave concern that bridging funds may only serve to keep institutions "on the dole," and delay they day when they will be able to stand on their own. The AID Rep in Budapest feels strongly that -- rather then investing scarce resources on bridging funds -- more time and attention should be devoted to helping local and regional institutions become financially self-sustaining.

The pros and cons of this mechanism:

Pro: Bridging funds are a way for the U.S. to keep afloat promising host country and regional institutions which it has been supporting, until other donors can step in to provide further financial support.

Con: But bridging may only serve to keep weak institutions dependent on donor assistance, and delay the day when they can stand on their own. This may not be the best use of scarce resources in the last years of SEED or FSA funding.

In sum: This is mechanism is one that can conceivably be employed in all three strategic assistance areas. But it should be used sparingly, i.e., only to support institutions that have a short-term financial problem, but clearly give evidence of having a long-term future.

2. Trust Funds

The purpose of trust funds is to leave a pot of money behind that can be used to continue some designated activities after U.S. funding -- and the U.S. presence -- is ended. The normal use of trust funds is to pay for the services of technical advisors (hopefully American) in providing advice on policy issues and in the design of host-country or other donor programs and projects.

Several concrete examples of the use of this mechanism in the ENI Region were identified in the course of this exercise:

- The Trade and Development Agency has put $1 million of SEED money into a World Bank and EBRD trust fund for their feasibility studies and pre-loan design;
- $10 million in SEED money has gone into a World Bank trust fund for program and project design in the housing sector; and
- $1 million in FSA funds have been put into an EBRD trust fund for the design of natural gas systems in central Asia.

Other donors are said to be contributing to World Bank and EBRD trust funds for technical assistance in project development and addressing conditionality issues in the energy sector. The possibility of the U.S. leaving behind further trust funds to pay for U.S. consultants to work on project preparation, policy issues and institution-building, particularly in the energy and environmental sectors, is under discussion in the ENI Bureau in Washington.

In the Field, however, this mechanism is not seen as having a high priority or utility. The ENI Posts in the northern tier generally do not consider trust funds to be an optimal use of their scare SEED funds. Thus, the pros and cons of trust funds:

Pro: They provide a means for sustaining a U.S. influence (after the phase-out) in both resolving important policy issues affecting host countries, and in the design of other donor and host-country programs and projects.

Con: They may not be the best use of scarce SEED and FSA resources.

In sum: Although trust funds are a mechanism that might be employed to sustain the U.S. influence in all three strategic assistance areas, their potential (particularly in relation to other demands on a Mission's resources) appears to be limited.

3. Endowments

Although there are a number of good reasons for providing a worthwhile public or private institution with an endowment, the main purpose of an endowment is to provide the institution with *a secure funding source*. An endowment of $10 million might generate $700,000 a year in income, enough to cover an institution's basic administrative overhead costs. The institution itself then becomes a *delivery mechanism* for supporting various types of assistance, normally with program funds from other sources.

The normal recipient of an endowment is a foundation, which is non-profit, non-governmental, and sometimes quasi-public. (Foundations are discussed separately as a *delivery mechanism* in Section V.D.

Prior to the initiation of this exercise, ENI personnel had not given much thought to the possibility of using the endowment mechanism, for two main reasons: l) not much was known about the mechanism, other than that it had received mixed reviews on the basis of its early use in Latin America; and 2) endowments obviously cost lots of money, and where are the additional funds going to come from?

At the present time, only two specific proposals for potential endowments are under serious consideration by the ENI Bureau. One proposal, from OAR/Sophia, is for an endowment to the American University in Bulgaria. The other is a direct request to the ENI Bureau for an endowment from the EURASIA Foundation.

However, as described earlier, OAR/Vilnius is currently developing a proposal (potentially, in concert with OAR/Riga and OAR/Tallinn) for an endowment to an unspecified institution to serve as a delivery mechanism for continuing assistance in the area of democracy/governance. This exercise itself has served to stimulate the Posts visited by the consultant to consider potential endowments to a cross-section of host country and regional institutions. Before discussing these, a general discussion of the endowment mechanism is in order.

By a happy coincidence, USAID recently completed a comprehensive evaluation of the endowment mechanism. A report entitled "Endowments as a Tool for Sustainable Development" was issued in July of 1996. It should be the Bible for every ENI Post contemplating an endowment. The following brief description of what amount to the pros and cons of the endowment mechanism is quoted from that report:

"USAID has considerable experience in establishing endowments and is in the forefront of donor involvement in this area. USAID has directly funded 39 endowments, primarily with local currency...there are two endowments models: those that strengthen an institution to help ensure its financial stability, and those for local grant-making organizations...

"There are a number of reasons for choosing an endowment over another funding vehicle...providing a secure funding source, supporting local capacity building, expanding sectoral support, developing civil society, encouraging local philanthropy, leveraging other sources of funds and leaving a U.S. development legacy...

"Several lessons can be learned from USAID and other donor involvement in setting up endowments. These include: the need for adequate timing and financing to establish the endowment; the strategic use of matching funds to leverage USAID resources; and the importance of organizational independence from Government or secular interests. The study's principal conclusions are that:

- "Under the appropriate conditions, endowments can be a viable option for providing long-term sustainable development in countries with or without a U.S. presence;
- "Using endowments can be an important strategy for increasing the capabilities of indigenous organizations as development partners;
- "Strong institutions that are well-managed and have successful track records are an essential pre-requisite to funding an endowment; and
- "By their very nature, endowments involve less USAID monitoring and oversight than other types of activities. Instead, safeguards are built into the endowment design.

"Endowments appear to be a reasonable strategy for promoting sustainable development... When they are well-designed and consistent with USAID and host-country priorities, endowments are a *natural* for countries graduating from USAID assistance."

The report contains a half-page description of each of the endowments that have been made with local currency or U.S. dollars over the past 20 years, including the nine foundations that have been so endowed, e.g., the Luso-American Development Foundation in Portugal, and various other types of funding arrangements, e.g., the Swazi Business Growth Trust. This section of the report -- which notes that "USAID has used endowments as part of its exit strategy for four 'graduating' countries: Korea, Portugal, Costa Rica and Panama" -- is must reading for ENI Missions contemplating an endowment.

As mentioned earlier, a number of ENI Posts in the NT countries are now seriously considering using the endowment mechanism. They realize that endowments are an expensive proposition, and they are reluctant to consider reprogramming funds within their established OYB levels for the remaining years of SEED funding. *They would much prefer that the ENI Bureau provide them with additional funds ear-marked for worth-while endowments.*

The following are some of the host country and regional institutions that have been identified as *potential* candidates for an endowment, in addition to those already mentioned above:

In Hungary: the Regional Environmental Center and the International Law Enforcement Academy.

In the Slovak Republic: the Slovak Business Advisory Center, the Economics University and Comenius University.

In Poland: the Warsaw Journalism Center, the Polish-American Management Center, the Polish American Center for Agricultural Marketing and Management, the Wroclaw Technical University, the Center for Private Enterprise, the Center for Social and Economic Research, the Warsaw Institute of Banking and the Foundation for Support of Local Democracy.

In Lithuania: the Lithuanian Free Market Institute and the NGO Support Center.

In the Czech Republic: the Czech Management Center, the Center for Economic Research and Graduate Education and the Czech Environmental Partnership *would all have been candidates* for an endowment, if OAR/Prague still had the time and SEED funds to employ the endowment mechanism.

Of the institutions mentioned in the Field, the one that was most often also mentioned as a good candidate for an endowment by ENI personnel *in Washington* is the Regional Environmental Center in Budapest.

What we have, then, is a recent Agency report which gives the endowment mechanism high marks, when effectively employed. There are a fair number of potential candidates for endowments in the NT countries, and probably an equal number in the ST and NIS countries as well. If the ENI Bureau decides to encourage its Missions and Offices to seriously consider providing endowments, then the Bureau must also be prepared to address the issue of how these *new initiatives* would be funded.

There appear to be three options for addressing the funding issue: 1) to use some of the reflows from the Enterprise Funds for endowments; 2) to require that the funding for endowments be absorbed within a Mission's established OYB funding levels; and 3) that the ENI Bureau set aside a special pot of money that Missions can "bid" on for additional funds for endowments.

One important factor to take into account here is that it can take up to *two years* to go through the Agency's elaborate procedures for authorizing an endowment. This means that if a Mission starts to work on an endowment in FY 1997 it will probably not need any funds until FY 1999. (This is about the time that the first appreciable reflows from most of the Enterprise Funds will start to come in.) It also means that if the ENI Bureau wants to set up a special fund as an incentive to encourage endowments, the time to do that would be in FY 1999 and FY 2000, still some time off.

Another factor to keep in mind is that the endowment mechanism should only be employed with institutions which "have an established track record," i.e., a Mission should not consider first helping to establish an institution, and then consider giving it an endowment in later years, when it is on a solid footing. In any event, there is not enough time for that: if it takes two years to authorize an endowment, most Posts don't have much time to complete the process within their established phase-out dates.

And, finally, there is this: the State Department SEED Coordinator's Office is very skeptical about "branching out" into endowments, because there are no additional funds available for such a purpose, except perhaps the reflows from the Enterprise Funds. Adding up the pros and cons of this mechanism:

Pro: Endowments are endorsed by the Agency as being "a natural" for countries "graduating" from U.S. assistance. They are a very viable option for sustaining U.S. assistance, in whichever strategic assistance areas the endowed institutions are working. There are a number of potential candidates for endowments in the NT countries, and doubtless in the ST and NIS countries as well. There is still time to employ this mechanism at all ENI Posts that have at least another two more years of funding in front of them.

Con: It is too late to employ this mechanism at Posts whose phase-out is well-advanced. And endowments can be very costly? Where are the additional funds going to come from?

In sum: A mechanism with outstanding potential, in all three strategic assistance areas, if the funding problem can be solved.

Recommendation # 15: That the ENI Bureau encourage its Missions and Offices to give serious consideration to the possibilities for providing endowments to host-country and regional institutions.

Recommendation # 16: That the ENI Bureau develop an official policy on how endowments will be funded; that policy should involve, at a minimum, a *combination* of the following options: a) requiring some Missions and Offices to absorb the funding of endowments within their established OYB levels; b) drawing on the reflows from some of the Enterprise Funds; and c) establishing a special set-aside of SEED and FSA funds in FY 1999 and FY 2000 to serve as an incentive for Missions to fund endowments over and above their current OYB levels.

* * *

The following table shows how the three *funding mechanisms* just discussed are currently {C} being successfully employed -- or have the potential {P} for being employed -- in addressing the external obstacles (and related resource gaps) that were identified at the ENI Posts in the northern tier countries:

Table # 2: Funding Mechanisms for Addressing the External Obstacles Identified in the Northern Tier Countries

	Weak Local/ Munic Govt	Weak Civil Society	Weak Country/ Reg Institutions	Weak Bank Fin Sectors	Legal/Reg Framework
1. Bridging Funds	C	P	P	P	C
2. Trust Funds	P	P	P	P	P
3. Endowments	P	P	P	P	P

This table shows that all three mechanisms -- while thus far rarely employed -- have the potential for being applied in addressing all five of the obstacles. But that does not necessarily mean that they have a *high* potential utility. Table # 5 on page 63 shows their relative potential in addressing obstacles and resource gaps across-the-board, i.e., in all three strategic assistance areas.

C. Hybrid Mechanisms

1. Strengthening Host Country Institutions

A major component of SEED and FSA-funded assistance at every ENI Post is helping to establish new -- and strengthening the capacity of existing -- host country institutions. These institutions run the gamut from large Government ministries to small NGOs. Viable public and private institutions are arguably the most important legacies that the United States can leave behind, as it phases out its assistance.

Strengthening host country institutions has two important aspects in terms of sustainability. One is strengthening the institutions' capacity to perform the functions or deliver the services for which they were established, which can produce important results in terms of sustaining overall political, economic and social reforms in their areas of operation. The other is strengthening their own capacity to be self-sustaining, i.e. assisting them in establishing a secure legal and financial foundation, one that will enable them to make it on their own when U.S. and/or other donor aid is no longer available.

Over the years, the ENI Bureau has increasingly stressed the importance of addressing sustainability in its institution-building activities. Sustainability is being seriously addressed in the northern tier countries, particularly those that are just starting their phase-out, and still have enough time not only to further *strengthen* host country institutions, but to assist them in becoming *self-sustaining* as well.

OAR/Vilnius, which played a major role in establishing the Lithuanian Free Market Institute, is now pushing the Institute to develop a Business Plan for achieving financial sustainability. Four other institutions which the OAR has been strengthening are being encouraged to think about market development and how to increase revenues: the Financial Brokers Association, the Securities Bank, the Stock Exchange and the NGO Support Center. The latter institution, established just a year ago, presents a special challenge, since it currently is 100 percent dependent on donor support.

OAR/Bratislava is giving serious thought to the sustainability of the Slovak Business Advisory Center, which it helped establish with SEED funds. Should the Center continue to maintain its non-profit status and seek further support from other donors, e.g., EU/PHARE? Should the Center become a for-profit institution, perhaps transforming itself into a private consulting company bought and managed by its employees? Should it be merged with some local or international consulting firm which is already self-sustaining? (These are all good questions of the kind that every ENI Mission might well ask about the future of the institutions that it currently supports.)

OAR/Warsaw's most ambitious effort to strengthen host country institutions -- and promote their sustainability -- is in the area of local government. Over the coming year, 25-30 model local municipalities will be established and assisted in learning revenue sharing, calculating costs, getting citizen inputs and providing citizen services. Before time and SEED money runs out, the hope is that the model can be replicated in *several thousand* other municipalities, with their sustainability assured.

OAR/Warsaw is also beginning to *require* institutions which it supports to take positive action to insure their own sustainability. The Polish Association of Home Builders has been asked to lay out its strategy for achieving financial self-sufficiency. The Housing Finance Project Office has been instructed to prepare a Business Plan that shows how it can reach self-sufficiency by January of 1998. There is concern that one of the local institutes which OAR/Warsaw has been trying to strengthen, the Free Trade Union Institute, will never be sustainable. It has been informed that it will receive no more funding until it has developed an acceptable Business Plan.

The Warsaw Journalism Center (which received a final SEED-funded grant last year) is considered to be an institution that is well on its way to becoming self-sufficient, through the collection of student fees and by renting out its radio and TV studio facilities.

As other ENI Posts focus more on sustainability, the policy of requiring the institutions which they support to prepare a Business (financial) Plan as a pre-condition for further funding certainly merits consideration. There are two related issues that may need to be addressed at most Posts, particularly with regard to the sustainability of *private* institutions: l) the legal and regulatory framework; and 2) the whole business of fund-raising.

In many countries there is little or no legislation on the books that establishes a legal framework or gives any special status to the *non-profit* activities of private groups, of which NGOs and other civic advocacy groups are the largest category. Such enabling legislation is urgently needed to establish the institutions' own tax status and provide tax incentives for potential contributors.

With respect to contributors, there is no tradition of charitable giving (except to the Church) in most of the ENI region. Moreover, the thousands of private institutions that have sprung up in recent years have no experience in soliciting funds from the public. They urgently need technical assistance in the well-developed Western art of fund-raising. OAR/Prague's project for technical assistance in "the development of philanthropy among Czech and foreign business" is the only such on-going activity anywhere in the NT countries that was identified in this exercise.

Finally, it almost goes with saying that *one of the most effective ways for USAID to assure the sustainability of a worthy host country institution is to provide it with an endowment.* As noted earlier, there are a number of host country institutions in the NT counties that appear to be viable candidates for endowments. Summing up this "hybrid" mechanism:

Pro: Effective host country institutions are not only important in their own right, but they can play a crucial role in sustaining the overall reforms fostered by U.S. aid, *in all three strategic assistance areas*. There is still enough time at most ENI Posts to continue to assist them in both strengthening their capabilities and achieving financial sustainability.

Con: The ENI Bureau currently lacks the capacity to assist host-country institutions in the crucial area of fund-raising.

In sum: Strengthening host country institutions and assuring their own sustainability are important Results that ENI Missions and Offices should strive to achieve in the waning years of their program..

2. Strengthening Regional Institutions

Much of what has just been said about host-country institutions applies equally to *regional* institutions. But before discussing some of the efforts currently under way to strengthen and sustain regional institutions in the NT countries, a word about "regionalism" is in order.

The ethnic tensions that have bedeviled central Europe for a thousand years make it difficult for some countries to collaborate in seeking regional solutions. A regional institution based in one country tends to be held in some suspicion by its neighbors.

A good example is the Budapest-based Regional Environmental Center (REC). Rightly or wrongly, as seen from the Slovak Republic, the REC hasn't been of much benefit; it is perceived to focus mainly on serving the needs of Hungary. Given a choice in the matter, most CEE countries would prefer to build their own institutions, rather than collaborate in supporting a regional one.

That being said, at least two CEE countries -- Hungary and Poland -- are said to be very interested in taking on regional responsibilities, and making their respective capitals, Budapest and Warsaw, regional hubs.

One point made by ENI personnel in the NT countries is that there are only a few regional institutions of note in their area now. Most of these have been receiving USAID support, and some of them are potential candidates for endowments. But it may be too late in the game to consider establishing any *new* regional institutions from the ground up. (This raises the question of whether or not there is sufficient time for the U.S. to support the establishment of another Regional Environmental Center, somewhere in the NIS region, as is apparently under serious consideration.)

In any event, the major regional institutions in the NT countries currently being strengthened with SEED funds include: the aforementioned REC in Budapest; the International Law Enforcement Academy, also in Budapest; the Czech Management Center and the Center for Economic Research and Graduation Education in Prague; the Emergency Medical Services Center in Tallinn; and the Warsaw Journalism Center.

All of them are considered to be effective institutions in their respective spheres. All are considered very worthy of further U.S. support, not only in improving their capabilities, but in assuring their sustainability, perhaps through an endowment.

Are there any host-country institutions out there that might be supported *in becoming regional?* The Institute for Sustainable Development in Warsaw was the only candidate identified in this exercise. There is a great wish among the ENI Posts in the NT countries that some regional institution could become the implementing agency for the continuation of D/G activities in the post phase-out period. Wrapping up this mechanism:

Pro: Viable regional institutions can play a crucial role in sustaining the overall reforms fostered by U.S. assistance, *in all three strategic assistance areas.*

Con: Many CEE countries prefer to solve their problems on a national, rather than a regional basis. It may be too late to consider funding the establishment of any new regional institutions.

In sum: Although there are only a handful of regional institutions (in the NT countries) strengthening their capacity and assuring their sustainability are important Results that ENI Missions and Offices should strive to achieve.

Recommendation # 17: That the ENI Bureau instruct its Missions and Offices to continue to support the development of effective host-country and regional institutions, and require that those institutions develop Business/Finance Plans that lay out their strategy for achieving self-sufficiency, as a prerequisite for further funding.

Recommendation # 18: That the ENI Bureau develop a special initiative to provide host-country and regional institutions with technical assistance in fund-raising.

3. Partnerships

Many of the ENI Bureaus' most successful projects and activities are being implementing on the basis of a close working relationship (partnerships) between public and private American institutions and host-country institutions. As used here, the term partnerships means sustaining the benefits of those relationships by cementing and continuing those partnerships after the phase-out. Efforts to forge long-lasting partnerships -- particularly ones in which both partners share in the costs -- are underway in various ways at several NT posts.

OAR/Prague has required all of its implementing partners to build into their Workplans mechanisms for sustaining their relationship with their Czech counterparts. At a minimum, this means establishing Internet connections, for a continuing exchange of information and ideas. The American Health Alliance has established a continuing partnership between two American universities (Virginia Commonwealth and Nevada) and four Czech universities for graduate, in-service training of faculty in health care management.

OAR/Riga is working on cementing a partnership between three U.S. hospitals in St.Louis, Missouri, and three hospitals in Riga, in the area of female and children's health. This will initially involve establishing Internet links, but the hope is that it will involve mutual support arrangements, including cost-sharing.

OAR/Bratislava is hoping to establish enduring partnerships between the University of Pittsburgh (currently supporting an MBA program) and the Economics University of Bratislava, and between the University of Northern Iowa (currently working in civics education and the concept of democracy) and the University of Nistra and Comenius University. Other possibilities for partnerships include establishing long-term links between: U.S. and Slovak hospitals; local NGOs and the Ministry of Environment with the U.S. Environmental Protection Agency; and the Ministry of Agriculture with the University of Arkansas and the Harvard Institute.

In Poland, there are a number of SEED-funded relationships between U.S. and Polish universities which appear to be candidates for the establishment of long-term partnerships: the University of Minnesota and three Polish institutions, the Polish-American Management Center at Lodz, the Warsaw School of Economics and the Olsytyn University; and Central Connecticut University and the Wroclaw Technical University at Dansk.

At the regional level, there is serious discussion underway in Washington with the U.S. Energy Association (USEA) on maintaining a partnership relationship with host-country counterparts active in the energy sector. There are also draft documents being circulated in the ENI Bureau on how long-term partnerships can be forged in the agro-business area between U.S. firms and their counterparts in the CEE and NIS countries. Adding up the pros and cons:

Pros: Partnerships can maintain enduring links between U.S. and host-country institutions well beyond the phase-out period. At a minimum, the partnerships can be maintained through the establishment of Internet connections, i.e., by providing the required hardware and software, which is not a very costly proposition.

Cons: None that anyone has pointed out.

In sum: A particularly effective mechanism for sustaining the benefits of U.S. assistance over the long-term, in all three strategic assistance areas.

* * *

The table on the following page shows how the three *hybrid mechanisms* just discussed are currently {C} being successfully employed -- or have the potential {P} for being successfully employed -- in addressing the external obstacles (and related resource gaps) that were identified at the ENI Posts in the northern tier countries:

Table # 3: Hybrid Mechanisms for Addressing the External Obstacles Identified in the Northern Tier Countries

	Weak Local/ Munic Govt	Weak Civil Society	Weak Country/ Reg/Institutions	Weak Bank Fin Sectors	Legal/Reg Framework
1. Strengthening Host Country Institutions	C	C	C	C	C
2. Strengthening Regional Institutions	P	C	C	C	C
3. Partnerships	P	P	C	P	P

What this table says is that the three hybrid mechanisms have across-the-board potential for addressing the kinds of obstacles identified in the NT countries. What the table does *not* show is that their potential is much more universal: as shown in Table # 5 on page 63, they have *high* potential for addressing every conceivable obstacle (and related resource gaps), in all three strategic assistance areas.

D. Delivery Mechanisms

1. Foundations

A foundation is an organization with one or more funding sources that is managed by a Board of Trustees or Directors and promotes some social, economic or charitable activities.

Well-known American foundations like Rockefeller and Ford are operating in central Europe and parts of the NIS region. In the context of this exercise, these American foundations have been considered to be "other donors," who might be "leveraged" to pick up the funding for SEED or FSA funding activities (as the Ford Foundation has done in the Czech Republic). They are not viewed as potential candidates for an endowment, or other financial support from the U.S. Government.

The most prominent of the other foundations operating in the ENI region are the Soros Foundations, which operates throughout the region, and the EURASIA Foundation, which operates only in the NIS countries. The U.S.- Baltic Foundation is a much smaller player, in the three Baltic countries.

The Soros Foundations are a network of 23 national foundations (the one in Lithuania is called the Open Society Fund) named after their founder, George Soros, who was born in Hungary and made a fortune as a financier in the United States. The Soros Foundations in the CEE and NIS countries support a broad array of programs in education, media and communications, human rights and humanitarian aid, science and medicine, arts and culture, economic restructuring and legal reform.

The Soros Foundations in the NT countries are well regarded. They have abundant resources and their programs are considered to be well-managed and effective. In a sense, the Soros Foundations can also be viewed as another donor. They, too, are starting to pick up some SEED-funded activities.

At various Posts, the local Soros branch office is looked upon as a possible candidate to serve as an implementing agent for D/G activities which might be continued with some sort of funding, e.g., an endowment, after the phase-out period.

The EURASIA Foundation is a USAID creation. It began operations in June of 1993 with a $75 million grant from the Agency. The foundation makes grants in three program areas: economic reform, Government reform and the non-profit sector, and media and communications. Over the past three years, the foundation's Washington, D.C. headquarters and its six field offices in the NIS countries have awarded some 1,200 grants.

The EURASIA Foundation is said to be doing an effective job in providing grants for projects that have demonstrated a viable need and shown promise of sustainability and impact. With only 18 percent of its revenues going to cover overhead, the foundation is considered to be well managed.

Given the EURASIA Foundation's good track record in the NIS countries, the question was posed: why hasn't USAID encouraged the foundation to work in central Europe as well? Two answers came back: l) the foundation was asked to do so by the ENI Bureau two years ago, but it declined, saying its expertise in terms of language skills and knowledge of the area is limited to the NIS countries; and 2) there may not be a demand for the foundation's services in central Europe.

The question of whether there is such a demand was raised at all five Posts visited in this exercise. The response was mixed: no, there isn't a demand; such demand as there is, is being met by foundations like Soros; yes, there is a demand, and it is for grant-making in the area of democracy and governance.

Th U.S.- Baltic Foundation's goal is to "teach American ideals to the Baltic countries." Its programs include training, seminars, and exchanges in municipal management, at the Institute of Public Administration in Vilnius, which it helped establish. As viewed by ENI personnel in the Field, the USBF is a fledging organization that has not yet realized its full potential. The pros and cons of foundations:

Pro: The relatively few large foundations in central Europe and the NIS countries are doing useful work, and some are very well-endowed. When viewed as other donors, these foundations can be "leveraged" to continue the funding of SEED and FSA-funded activities. There appears to be a market for either a new, or one of the existing foundations, to take on a grant-giving function in the democracy/governance area.

Con: It may be too late in the game for the ENI Bureau to think seriously about funding the establishment of a *new* foundation, particularly one to cover the entire NT.

In sum: Foundations are a very useful mechanism. But, with the exception of strengthening and/or endowing the few *existing* ones, there does not appear to be much room for expanding this mechanism's use.

* * *

As stressed repeatedly in this report, there is a strongly-expressed need in the northern tier countries for some delivery mechanism for continuing U.S. assistance in the general area of democracy and governance, particularly at the grass roots, after the phase-out. There does not appear to be any regional institution in central Europe at the present time that could serve as that delivery mechanism, even with substantial SEED-funded assistance in strengthening its capabilities over the next several years. Thus, the following recommendation is offered:

Recommendation # 19: That the ENI Bureau, in its current review of the EURASIA Foundation's request for a very large FSA-funded endowment, give serious consideration to requiring the EURASIA Foundation to expand its operations (particularly grant-giving in the area of democracy and governance) into central Europe, *as a pre-requisite for that endowment.*

2. Franchises

A franchise is a new concept that comes out of the Administration's Reinventing Government (REGO) and National Performance Review initiatives, led by the Vice President. The mechanism is used extensively in U.S. domestic Departments and Agencies. One of its big advantages is that it permits most of the Federal procurement rules and regulations to be waived.

Basically, franchising means a contractual arrangement in which private firms and contractors are given virtually the full responsibility for managing a Federally-funded program or activity. In the USAID context, this might mean giving a private firm, or an NGO, the full responsibility for managing U.S. emergency relief in southern Sudan.

A USAID/Washington Working Group has been exploring the possibilities for employing the new franchising mechanism for some months. The Group produced a draft concepts paper, that was recently circulated for comment within the U.S. PVO community. Rumor has it that the Group itself is not very enthusiastic about the concept, and that there is a possibility that the mechanism may not be officially endorsed by the Agency.

When the concept of franchising was mentioned in the Field, there was no rush to embrace it. The basic response was that more needs to be known about how franchising is supposed to work before its potential utility can be assessed.

In sum: Not enough is known about franchising to lay out the pros and cons and assess its potential utility in the ENI region.

3. Bi-National Commissions

A bi-national commission is a quasi-public institution jointly established and jointly operated by the United States and the Government of a host-country. It is designed to be a mechanism for providing U.S. assistance without an official U.S. presence. It is basically a USAID Mission by another name, and without a USAID direct-hire (or PSC) staff.

Normally the U.S. Ambassador and a senior Government official co-chair the Board, or whatever the entity is called that sets overall policy for the commission and directs its small (usually local) staff.

The bi-national commission channels *U.S. assistance funds* directly to the host country in the form of budgetary support, e.g., Economic Support Funds (ESF), or performs a grant-making function in various sectors, and in various forms, e.g., institutional development, technical assistance, training and exchanges.

The initial funding for a bi-national commission comes through either a large grant or an endowment. The bi-national commission then receives periodic allotments of funds to carry out its aid-giving functions. For example, the U.S.-Oman Joint Commission for Economic and Technical Cooperation, established in FY 1980, has channeled $50 million in ESF funds for projects in health, water, fisheries, agriculture and housing.

In the ENI Bureau context, a bi-national commission would have to receive new SEED or FSA funds every year. Thus, when SEED and FSA funds dry up, the bi-national commission would not have any money to work with -- unless it found some other source of funding.

The only potential source of funding that might be available are the reflows from the Enterprise Funds. Indeed, a bi-national commission might be established with the express purpose of becoming the delivery mechanism for channeling the Enterprise Fund reflows.

The pros and cons of a bi-national institution in the ENI context are quickly stated:

Pro: It is a viable mechanism for continuing U.S. assistance without a USAID Mission or USAID direct-hire presence.

Con: But a bi-national commission needs a substantial and continuing source of funding.

In sum: Bi-national commissions do not have potential utility in the ENI context, unless they are employed as a mechanism for channeling the reflows from the Enterprise Funds.

4. The Advanced Developing Country (ADC) Concept

In the mid-1980's, the Bureau for Latin American and the Caribbean (LAC) began to experiment with what was called the Advanced Development Country (ADC) concept. Countries were classified as ADC countries if they were no longer deemed to require a "regular" bi-lateral assistance program, because they met the following four criteria:

- A strong, sustained record of broadly-based economic growth, including: a relatively high level of per capita income, and/or a record of rapid economic growth over the last ten years; and a high level of resource mobilization sufficient to sustain that growth without recourse to concessionary resource transfers; and strong performance in employment generation and international trade;

- An appropriate and reasonably well-functioning policy framework (in particular a reliance on market-based systems of resource allocations;

- A viable education system that provides a well-educated and well-trained human resource base; and

- Generally effective institutions, particularly the institutional capacity to acquire, develop, adapt and assimilate new technology and the institutional capacity to address public needs and allow peaceful transitions of political power.

The ADC strategy was to develop a new cooperative relationship between the U.S. and the ADC countries that would:

- Transform the ties with these developing countries into a more mature bi-lateral relationship based more directly on mutual benefit;

- Maintain and intensify U.S. relationship with ADCs, building on the large investments USAID has already made in them, in order to better serve U.S. broad foreign, political, security, economic and commercial, as well as developmental, interests; and

- Forge strong and sustainable ties between the commercial, scientific, technological and other institutions of the U.S. and the ADCs by working with the institutions supported by USAID's bilateral assistance program.

Assistance to the ADCs were to be provided mainly in three broad areas: trade and investment; the exchange of technology and, where appropriate, scientific collaboration; and education and technical training. The main problem areas to be addressed were those which have "global" or regional implications, e.g., population, urbanization, and the environment, as well as trade, agricultural technology, health, nutrition, energy and poverty.

It was initially anticipated that the resources to implement the ADC strategy would come primarily from the developing countries themselves, plus the private sector, and only "limited" support from USAID. However, the ADC programs that have been implemented by the LAC Bureau have been financed almost entirely by the LAC Bureau or one of USAID's central bureaus. The LAC Bureau established two regional projects to support ADC programs: the LAC Regional Inter-Country Transfer project and the LAC Training Initiatives II project, mainly designed to facilitate technology acquisition and U.S. participant training.

Over the past decade, according to a senior LAC officer, the Bureau has not quite implemented the ADC concept as originally envisioned, mainly because the needs of the still *under*-developed countries have had to receive the lion's share of the Bureau's scarce financial and human resources. However, the strategy can be said to have been variously applied in a number of countries where the traditional bi-lateral programs have or are being phased out: Mexico, Brazil, Columbia and Paraguay.

The ADC concept does not required a full-blown USAID Mission or Office. It can be implemented in the Field with only one U.S. direct-hire officer and a small support staff, from a Regional Mission in the Field, or from the LAC Bureau (or a central Bureau) in Washington. All three of these models are being used by LAC at the present time.

Assessing the pros and cons of the ADC concept:

Pro: Many ENI countries appear to meet the prescribed ADC criteria. In theory, the concept appears ready-made for application in the ENI region.

Con: The ENI Bureau does not provide assistance in certain important ADC areas, e.g., population, agriculture and poverty. Implementing the concept requires substantial program and Operating Expense funds, which the ENI Bureau will not have when SEED and FSA funds run dry.

In sum: A fine concept, but one that requires a continuing funding source.

* * *

The following table shows how the four *delivery mechanisms* just discussed are currently {C} being successfully employed -- or have the potential {P} for being employed -- in addressing the external obstacles (and related resource gaps) in the northern tier countries.

Table # 4: Delivery Mechanisms' Potential for Addressing the External Obstacles Identified in the Northern Tier Countries

	Weak Local/ Munic Govt	Weak Civil Society	Weak Country/ Reg Institutions	Weak Bank Fin Sectors	Legal/Reg Framework
1. Foundations	C	C	C	C	C
2. Bi-National Commissions	P	P	P	P	P
3. Franchising	-	-	-	-	-
4. The ADC Concept	P	P	P	P	P

What the *above* table shows is that three of the four delivery mechanisms (all but franchising) have across-the-board utility. Their relative utility for being successfully employed is shown in Table # 5 on the *following* page, which summarizes the potential utility of all 15 mechanisms for sustaining U.S. assistance in ENI's three strategic assistance areas.

Table # 5: Potential Utility of the Mechanisms for Sustaining U.S. Assistance

	Econ Reforms	Dem Transition	Social Restructure
Alt Funding Sources			
Leveraging U.S. Agencies	Moderate	Limited	Limited
Leveraging Other Donors	Moderate	Moderate	Moderate
Leveraging Global Bureau	Limited	Limited	Limited
Reimbursable TA	Moderate	Limited	Moderate
Enterprise Fund Reflows	High	High	High
Funding Mechanisms			
Bridging Funds	Moderate	Moderate	Moderate
Trust Funds	Limited	Limited	Limited
Endowments	High	High	High
Hybrid Mechanisms			
Strength Host Institutions	High	High	High
Strength Reg Institutions	High	High	High
Partnerships	High	High	High
Delivery Mechanisms			
Foundations	Moderate	Moderate	Moderate
Fanchises	Limited	Limited	Limited
Bi-National Institutions	Moderate	Moderate	Moderate
ADC Concept	Limited	Limited	Limited

Summarizing Table # 5: five mechanisms have *high* potential for sustaining U.S. assistance, in all three strategic assistance areas: Reflows from the Enterprise Funds; Endowments; Strengthening Host-Country Institutions; Strengthening Regional Institutions; and Partnerships.

Six mechanisms have *moderate* (and in some strategic assistance areas, only *limited*) potential: Leveraging Other U.S. Agencies; Leveraging Other Donors; Reimbursable Technical Assistance; Bridging Funds; Foundations; and Bi-National Institutions.

Four mechanisms have very *limited* potential across-the-board: Leveraging the Global Bureau; Trust Funds; Franchises; and the ADC concept.

Recommendation # 20: That the ENI Bureau instruct its Missions and Offices to give serious consideration to the employment of the various mechanisms for sustaining their assistance that have been described in this report, particularly those with high and moderate potential for being successfully employed.

VI. Organization and Staffing Issues

A. The Case for a Regional Mission in the Field

Most ENI personnel in Washington and the Field believe quite strongly that the Bureau should establish a Regional Mission *in the Field* to perform certain functions and services in the waning years of the Bureau's programs in the CEE and NIS countries. What is the case for a Regional Mission? What functions and services would it perform?

Over the past three decades USAID has established many Regional Missions in the Field. Each was a hybrid, designed to meet a special set of circumstances and perform a specific set of functions. Some have mainly provided technical support services; others have had full responsibility for managing programs and projects in several countries. The point is that there is no one "model" for a Regional Mission.

Each of the other three Regional Bureaus is currently employing regional organizations as an important part of its phase-out strategy.

1. The Bureau for Africa

As OE constraints are forcing the Africa Bureau to cut back the staffing of its bi-lataeral Missions in east and southern Africa, it is "protecting" the staffing of its Regional Economic Development Services Office (REDSO/ESA) in Nairobi and relying on that office to take on residual management and monitoring responsibilities for the bi-lateral programs in the latter stages of their phase-out.

On the other side of the continent, REDSO/WCA in Abidjan is being closed, because there is no longer a bi-lateral program in the Ivory Coast, and also because of the high OE cost of operations in Abidjan. But USAID/Accra will be taking on its former regional support functions.

The Africa Bureau's new Regional Mission in Gabarone, Botswana, has been assigned an important role in "graduation" planning for South Africa, Zimbabwe and Namibia.

2. The Bureau for Latin America and the Caribbean

The LAC Bureau – which pioneered regional missions in the 1960s – is closing its long-time Regional Office for Central American and Panama (ROCAP) in Guatemala City, as its programs are phasing out. USAID/Guatemala is picking up ROCAP's responsibilities for managing residual regional projects during the phase-out.

The Bureau is planning to establish four regional support "centers" to provide legal, contracting, controller and executive office services to its bi-lateral Missions, as they phase-out their programs and U.S. presence. The centers will be located in El Salvador, Peru, Ecuador and the Dominican Republic.

3. The Bureau for Asia and the Near East

The ANE Bureau is closing the Regional Mission which it opened just two years ago in Bangkok, because the Thailand program is in its final stages. The Regional Mission's program management and support functions are being transferred to the bi-lateral Missions in the Philippines and Thailand. Thus, those two Missions will play a key role in the phase-out of the other bi-lateral Missions in the region.

* * *

Many of the ENI Bureau's current projects were initially designed by a Regional Mission *located in Washington*. This made sense at the time: the job of jump-starting a new program throughout a vast new region of the world could best be done from the Center. At the present time, there are many regional operations and support "arrangements" in the Field:

- A Regional Mission in Kiev manages the "West NIS" programs in the Ukraine, Moldava and Belarus;
- A Regional Mission in Almaty manages the programs in Central Asia: Kazakastan, Tajikistan, Uzbekistan and Turkmenistan;
- An Office of the Aid Rep in Yerevan manages the programs in the Caucasus: Armenia, Georgia and Azerbaijan;
- OAR/Vilnius has program and project management responsibilities for the residual activities in Latvia and Estonia;
- Program and project management responsibilities for the residual activities in Slovenia had been assigned to OAR/Budapest; they were recently transferred back to the ENI Bureau in Washington;
- OAR/Warsaw provides contracting, controller, and executive office support services to Lithuania and Estonia; contracting support throughout the NT countries and the Ukraine; and controller support (but not executive office support) to the Czech Republic and the Slovak Republic;
- A Regional Housing and Urban Development Office (RHUDO) in Warsaw manages HIGs and provides TA in a number of CEE countries;

- A Regional Executive Office (REXO) in Budapest provides full executive office support to the Czech Republic, Slovenia, Latvia and Bulgaria, and ad hoc administrative support to 23 ENI Posts;

- A Regional Financial Management Center (RFMC), also located in Budapest, provides controller services to Hungary and seven ST countries. An ENI Bureau proposal to merge the REXO and RFMC into a Regional Support Center in Budapest is awaiting Washington approval by the M Bureau; and

- There are a number of other regional support arrangements involving legal officers, housing and urban development officers, and other technical support personnel, particularly in the NIS countries.

The point is that there are many regional operations out there. Some Posts receive support services from one Post and provide some support services to other Posts themselves. This is not said critically. Although there is some grumbling about how the various regional support services are being delivered, most of them seem to be working pretty well. That being said, is the current set of regional arrangements still appropriate as the phase-out accelerates in the CEE and NIS countries? Many ENI personnel feel it isn't.

They believe that a Regional Mission is needed to consolidate the current, ad hoc support arrangements, and to play an expanding role in regional program and project management, in order to assure an orderly phase-out of the Bureau's programs and official presence. They are also convinced that the inevitable next rounds of staff reductions (driven by further OE budget cuts) will make it imperative for the Bureau to concentrate its dwindling staff resources in one place.

The prospective Regional Mission that emerges from discussions with ENI personnel would have the following features:

1. **Timing.** The new Regional Mission (hereafter the RM) would be established in late FY 1997 and become fully operational at the start of FY 1998. It would then be the *last* ENI Mission or Office to be closed as part of the overall program and presence phase-out, sometime around FY 2003.

2. **Location:** Budapest, Hungary. There is some sentiment for Warsaw, but the majority view is that Budapest is the most central location, in terms of transportation routes and other logistic considerations, for serving the entire ENI region. The Government of Hungary is said to welcome the idea of a USAID regional operation based in its country.

3. **Organizational Status and Structure:** The RM would be a full-fledged USAID "Mission," headed by a Director, who would be given full delegated authorities to manage country programs and projects. The RM would be free-standing, i.e., it would operate entirely independent of USAID/Budapest.

4. **Functions:**

    a. **Regional financial and administrative support.** The RM would initially subsume the functions of the proposed Regional Support Center and take on all its responsibilities for providing controller and executive officer services to certain Posts. The Mission would then gradually expand its coverage of these services throughout the region, as bi-lateral Missions and Offices shrink in size and the number of Controllers and Executive Officers at other Posts is reduced to zero.

    b. **Regional technical support.** The RM would gradually take on all other technical support responsibilities, e.g., legal, housing and urban development, and any new areas of technical support, e.g., democracy and governance, that may emerge.

    c. **Management and monitoring of residual programs and projects.** This would become the RM's most important function: taking on full responsibility for: 1) managing and monitoring residual *country* programs and projects, in the waning years of the phase-out (as OAR/Vilnius now does for Latvia and Estonia); and 2) managing and monitoring *regional* projects currently being managed from the ENI Bureau in Washington. These responsibilities would be assumed on a case by case basis, perhaps toward the end of the last year of SEED and FSA funding for most countries or projects.

    d. **Technical advice and assistance on the *close-out*.** The Regional Support Center in Budapest is currently involved in helping some of the NT Missions and Offices plan and implement their close-out, i.e., all the administrative chores required to close their doors and "turn off the lights." This function would be expanded to provide such advice and assistance to *all* ENI Posts in the CEE and NIS countries, including helping them conduct their final inventories, properly dispose of their assets, and deal with local personnel issues. (This function might also include advice on how to handle the public relations aspects of the phase-out and close-out at each Post.)

    e. **Other functions as may be assigned,** e.g., facilitating reimbursable TA.

5. **Staffing.** The size and composition of the RM staff can not be addressed with any precision here. It would have to start out with at least two or three positions on top of the already established positions in the Regional Support Center, which it would assume at the outset. Then the RM staff would grow by X positions for several years,

as certain functions and staff are transferred IN from the bi-lateral Missions. In this transfer process, however, the *overall* number of positions in the region would show a net decrease.

Establishing the new Regional Mission will not be an easy task. There will be many problems to overcome, not the least of which will be to obtain the required approvals at various levels of the USAID and State Department bureaucracy. There will have to be a very detailed analysis of all the current cross-cutting regional support arrangements that have to be accounted for, as the RM gradually takes them all on. But the task should be undertaken. The case for a Regional Mission appears to be a solid one.

Recommendation # 21: That the ENI Bureau initiate action to establish a Regional Mission in Budapest, Hungary, no later than the beginning of FY 1998.

B. The ENI Bureau in Washington

Thus far the entire discussion of the ENI phase-out in this report has been focused on the Field. But what about the phase-out in the ENI Bureau in Washington? Indeed, what about the phase-out of the ENI Bureau itself?

Presumably, as its programs and presence in the Field phase down and out, the Bureau itself won't have many more functions to perform, nor need a large staff to perform them. There is a good case to be made that, when further OE-driven cuts are leveled on the ENI Bureau, it should absorb the majority of these in Washington. The Bureau's remaining work is primarily in the Field: implementing the last projects and activities and managing an orderly phase-out and close-out.

If certain countries are designated "sustainable development" countries they will require back-stopping from Washington. But will an ENI Bureau still be required at that time? Should its residual functions and staffing be merged with some other Bureau or Office in Washington?

There have already been some behind- the- scenes discussions in Washington about the future organizational structure and staffing of the Bureau. If nothing else, the Bureau has to consider changes that are required as a result of the most recent position cuts and personnel Reductions in Force. It would seem that the time has come for those discussions to go public, and for them to focus on the long-range question of the ENI Bureau's future as the phase-out accelerates.

Recommendation # 22: That the ENI Bureau launch a formal and transparent exercise to address organizational, functional and staffing issues associated with the Bureau itself in the overall ENI phase-out and close-out.

VII. Summary of Recommendations and Required Follow-Up Actions

This report contains 22 specific recommendations for action by the ENI Bureau:

Recommendation # 1: That the ENI Bureau quickly come to closure on the design of its proposed Country Progress Monitoring system and use the system to produce annual updates (by March 31) of the relevant data *and the country rankings*, as essential inputs to the Bureau's budget reviews in the Spring.

Recommendation # 2 That the ENI Bureau initiate action to *officially inform* all those concerned -- in Washington and the Field -- of its phase-out plans in all the CEE and NIS countries.

Recommendation # 3: That the ENI Bureau initiate the steps required to obtain Agency approval for some of its countries to be classified as "sustainable development" countries.

Recommendation # 4: That the ENI Bureau, in its guidance to the Field on the FY 1997 R-4 exercise, encourage its Missions and Offices to further reduce or consolidate their Strategic Objectives, terminate "low impact" activities, and concentrating further funding on those projects and activities which have the highest potential payoff in the remaining years of the phase-out period.

Recommendation # 5: That the ENI Bureau, in its guidance to the Field on the FY 1997 R-4 exercise, assure its Missions and Offices that: a) it is anxious for them to identify potential resource gaps; and b) it is willing to consider well-documented requests from the Field -- as part of the Strategic Plan and R-4 process -- for additional time and/or money to close resource gaps.

Recommendation # 6: That (as a corollary to Recommendation # 6) the ENI Bureau notify its Missions and Offices that it would particularly look favorably upon Field requests for additional time and money to address resource gaps in the general area of democracy/governance, in order to strengthen civil society at the grass roots.

Recommendation # 7: That the ENI Bureau continue to assign a high priority to the effort to provide accurate and timely pipeline data to the Field; and that the other internal obstacles identified in this exercise be formally addressed by the Bureau's Graduation Advisory Committee.

Recommendation # 8: That the ENI Bureau, as it formally communicates its phase-out plans to officials in the Washington headquarters of all U.S. Departments and Agencies serving as its implementing partners, also enter into a dialogue with those agencies on the potential for their continuing to fund activities that are currently SEED or FSA funded.

Recommendation # 9: That all ENI Missions and Offices in the Field formally communicate their phase-out plans to all the representative of other U.S. Departments and agencies at their Post, and enter into a dialogue with them on activities which USAID (or the agencies themselves) would like to see continued with those agencies' funds.

Recommendation # 10: That all ENI Missions and Offices actively "market" their portfolios with other donor representatives in the Field, in an effort to convince them to pick up and continue the funding for some USAID activities after the phase-out.

Recommendation # 11: That the ENI Bureau initiate formal talks at the headquarters level with three multi-lateral agencies (the World Bank, the EBRD, and EU/PHARE) in order to: a) communicate USAID's phase-out time-table in all the CEE and NIS countries; and b) to urge those agencies to direct their Field representatives to be open to proposals for picking up the funding of some USAID activities.

Recommendation # 12: That all ENI Missions, as they enter into a formal dialogue with the host-country on the phase-out, encourage their counterparts to consider obtaining technical assistance -- from U.S. private sector sources -- on a reimbursable basis.

Recommendation # 13: That ENI personnel accept the fact that the Enterprise Funds are here to stay and do whatever they can within their limited power to help the Funds improve their overall level of performance and better fulfill their mandate.

Recommendation # 14: That the ENI Bureau support the proposition that the reflows from the Enterprise Funds should be used primarily to sustain the democratic transition throughout the ENI region.

Recommendation # 15: That the ENI Bureau encourage its Missions and Offices to give serious consideration to the possibilities for providing endowments to host-country and regional institutions.

Recommendation # 16: That the ENI Bureau develop an official policy on how endowments will be funded; that policy should involve, at a minimum, a *combination* of the following options: a) requiring some Missions and Offices to absorb the funding of endowments within their established OYB levels; b) drawing on the reflows from some of the Enterprise Funds; and c) establishing a special set-aside of SEED and FSA funds in FY 1999 and FY 2000 to serve as an incentive for Missions to fund endowments over and above their current OYB levels.

Recommendation # 17: That the ENI Bureau instruct its Missions and Offices to continue to support the development of effective host-country and regional institutions, and require that those institutions develop Business/Finance Plans that lay out their strategy for achieving self-sufficiency, as a prerequisite to further funding.

Recommendation # 18: That the ENI Bureau develop a special initiative to provide host-country and regional institutions with technical assistance in fund-raising.

Recommendation # 19: That the ENI Bureau, in its current review of the EURASIA Foundation's request for a very large FSA-funded endowment, give serious consideration to requiring the EURASIA Foundation to expand its operations (particularly grant-giving in the area of democracy and governance) into central Europe, *as a prerequisite for that endowment.*

Recommendation # 20: That the ENI Bureau instruct its Missions and Offices to give serious consideration to the employment of the various mechanisms for sustaining their assistance that have been described in this report, particularly those with high and moderate potential for being successfully employed.

Recommendation # 21: That the ENI Bureau initiate action to establish a Regional Mission in Budapest, Hungary, no later than the beginning of FY 1998.

Recommendation # 22: That the ENI Bureau launch a formal and transparent exercise to address the organizational, functional and staffing issues associated with the Bureau itself in the overall ENI phase-out and close-out.

* * *

Although the recommendations are addressed to the ENI Bureau, about a third of them are not completely within the Bureau's purview to approve and implement. The recommendations pertaining to the release of information on the timing of the phase-out and a follow-up dialogue with the host-country and the ENI's implementing partners require State Department approval. So do the recommendations with respect to the Enterprise Funds, the endowment to the EURASIA Foundation and the establishment of a Regional Mission in Budapest.

The other recommendations can be approved unilaterally by the ENI Bureau. Their implementation can, in most cases, take the form of official guidance to the Field, in whatever form the Bureau chooses. One way to provide that guidance is to have this report restructured and rewritten in the form of a guidance document (which, of course, only includes those recommendations which have the Bureau's blessing).

One way or another, a mechanism should be found to communicate to the *ST and NIS Missions and Offices* all the thinking of the *NT Posts* – and all the examples of how they are planning and implementing their phase-out – that are described in this Report.

Some recommendations, if approved, will require very extensive follow-up action. These include: the whole process of conducting a dialogue with all the players on the timing of the phase-out and related issues; the nitty-gritty of establishing a Regional Mission; the special initiative on technical assistance in fund-raising; and the future organization and staffing of the ENI Bureau itself.

ANNEX A

Scope of Work for the ENI Graduation Strategy Framework

The Consultant (Fred C. Fischer) will provide technical assistance to the ENI Bureau in developing its graduation strategy framework. The primary task is to identify and analyze:

1. The major ***obstacles*** – external and internal – that are likely to impede the Bureau in its efforts to achieve a smooth and successful phase-out of its assistance programs and USAID presence in the CEE and NIS countries, with special focus on "resource gaps" which call into question the Bureau's ability to meet its program goals in the remaining time between now and its established "graduation" target dates; and

2. The various types of funding and operating ***mechanisms*** that the ENI Missions can begin to employ now--and leave in place *after* graduation--in order to sustain the benefits of their assistance and the momentum of the reforms which that assistance has fostered.

The Consultant's analysis in the Field will focus primarily on the USAID Missions and Offices in the "northern tier" countries of Central Europe, several of which have already begun their phase-out.

The end-product will be a comprehensive report that includes: a) overall findings, conclusions and recommendations on how to address and overcome the major "obstacles" that have been identified; and b) a thorough analysis, including pros and cons, of the various mechanisms that have been previously tried within the Agency, with recommendations on which mechanisms appear to be most appropriate for further application by the ENI Missions and Offices.

The report will be structured in such a way that it can be converted into a general Bureau guidance document by ENI/PCS, or be merged with (or become an Annex to) the Bureau Guidance on Mission Close-Out Procedures currently being drafted by ENI/PD.

Following is the Consultant's schedule, based on a Purchase Order signed on 7/2/96:

July 2-22: Extensive meetings in Washington with personnel from: the ENI Bureau; other USAID Bureaus; the State Coordinators; other U.S. agencies; and the World Bank and IMF.

July 23-Aug 29: TDY in the Field: Hungary, Slovak Republic, Czech Republic, Poland and Lithuania (with side meetings on Latvia and Estonia, and potential meetings with EC officials in Brussels.)

Aug 30-Oct 4: Further meetings with appropriate personnel in Washington; prepare draft report for internal review and comment. Complete final report by Oct. 31, 1996.

ANNEX B 75

Persons Interviewed by Fred C. Fischer

The following persons in Washington and the Field were interviewed by the Consultant *one or more times* in connection with the preparation of this report:

I. In Washington

A. U.S. Agency for International Development (USAID)

1. Bureau for Europe and the New Independent States (ENI)

Barbara Turner, DAA/ENI
Donald Pressley, DAA, ENI
David Cowles, ECA
Maria Mamlouk, ECA
Ravinder Aulakh, ECA/NT
Jennifer Karp, ECA/NT
Jaime Correa, ECA/ST
Ted Landau, ECA/ST
Brian Wickland, ECA/NT
Suk Lee, ECA/NT
Geraldine Donnelly, DG
Maryann Riegelman, DG/PSPM
Kevin Kelly, DG
Jock Conly, PCS
Pat Matheson, PCS
Lance Downing, PCS/PS
Jeff Malik, PCS/PAC
Robert Queener, PCS/PS
Gloria Steele, PD
Dean Alter, PD/PSA
Tom Eighny, PD
Bruce Odell, PD
MaryAnne Walker, PD/PSA
Richard Johnson, ED
Mark Karns, ED
James Bever, EEUD
Pamela Baldwin, EEUD
Julie Outerbein, EEUD
Charles Uphaus, ED/AG
Paul Novick, ED/SB
Hans Shrader, ED/SB
Charles Signer, ED/SB

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Brian Kline, NCA
Robin Phillips, NCA
Richard Johnson, ED
Mark Karns, ED
Charles Uphaus, ED/AG
Paul Novick, ED/SB
Caroline Coleman, HR
Mary Ann Micka, HR/HP
Laurier Mailloux, PER
Richard Burns, PER
Robert Ichord, EEUD/EI
Howard Sumka, EEUD
William Granger, AMS
Penny Hong, AMS

2. Bureau for Africa

James Govan, AFR/DP
Glenn Slocum, AFR/EA

3. Bureau for Latin America and the Caribbean

Eric Zallman, DAA/LAC

4. Bureau for Asia and the Near East

Terry Brown, DAA/ANE

5. Bureau for Global Programs, Field Support and Research

Timothy Mahoney, G/PDSP

6. Bureau for Management

Caroline McGraw, M/MPI

7. Bureau for Policy and Program Coordination

Rose Marie Depp, PPD/BUD

B. Other U.S. Departments and Agencies

1. United States Information Agency

Allison Portnoy, Coordinator, Central/East European Programs
Effie Wingate, Program Officer
Maria Urbina, Program Specialist
Roberta Win, Program Planning Specialist

2. Treasury Department

Michael B. G. Froman, DAS/Eurasia
James H. Fall, III, DAS/TA Policy

3. Justice Department

Michael Gray, Director, CRIM/OPDAT

4. Commerce Department

Jay Burgess, Director, East European Division
Anne Grey, Director, BISNIS

5. U.S. Information Agency

Anna S. Phillips, Program Manager, CEE
Mark S. Kasman, TC Program Manager
Martin Dieu, Intl Training
Bill Freeman, Russia Desk
Katherine Buckly, Russia Desk
Michelle Keene, Slovakia and Romania Desk
Joanne McErnan, Regional Coordinator
Terry Holmes, Budget Coordinator

6. Office of Private Investment Cooperation

Michael C. Urness, CEE Business Manager
Kris A. Hammargren, Investment Development Officer
Renee Thompson, Investment Services Officer

7. Office of Management and Budget

Mark S. Sandy, International Affairs Division

C. Other Donor Agencies and Institutions

1. The World Bank

Jean-Michel Severino, Country Director, Central Europe

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2. The Eurasia Foundation

Eugene Staples, Vice-President
Craig Sarsony, Finance Director

3. The U.S.-Baltic Foundation

Mark G. Dreslin, Chief Financial Officer
Lottie H. Shackelford, Member of the Board
Jeff Nelson, Director of Development
George Ramonas, Member of the Board

II. In the Field (central Europe)

A. Hungary

1. Office of the AID Representative (OAR/Budapest)

Thomas Cornell, AID Representative
Ann Beasley, Business Team Leader
Janos Packer, Program Officer
Bruce Abrams, Energy Team Leader
Larry Birch, D/G Team Leader
Kenneth Beasley, Fiscal Team Leader

2. Regional Executive Office (REXO/Budapest)

Jerry Jordan, Regional Executive Officer
Luke Malabad, Executive Officer

3. Regional Financial Management Center (RFMC/Budapest)
Richard Lawrence, Regional Controller

4. Other U.S. Agencies

William Sifkin, Economic Counselor, U.S. Embassy
Peter Becshazy, USIS Project Manager

5. Other Donors

Roberto Rocha, Acting World Bank Res Rep

6. Other USAID Posts

Mitzi Likar, Slovenia Liaison Officer (based in Budapest)

B. Slovak Republic

1. Office of the AID Representative (OAR/Bratislava)

Patricia Lerner, AID Representative
Roy Grohs, Chief, Economic Restructuring Division
Loren Schulze, Chief, Enviromment/Energy/Urban Dev Divison
Kathy Stermer, Chief, Democracy/Pluralism Division
Jeremiah Parson, Executive Officer

2. Other U.S. Agencies

Ambassador R. Johnson, U.S. Embassy
Eugene Young, Econ/Commercial Officer, U.S. Embassy
Richard Lankford, USIS PAO
John Finn, Deputy USIS PAO
William Trautman, Tax Economist, Treasury Department
Susan M. Hines, Interim Director, Treasury Tax Advisory Dept. (Paris)
Robert Blenker, Peace Corps Director

3. Other Donors

Eric Mullender, European Union Representative
Mark Hussey, Principal Banker, European Bank for Reconstruction and Development

4. Contractors and Grantees

Kevin Southheimer, University of Pittsburgh
Scott Bressler, Slovak Banking and Business Advisory Center
M. E. Trubenbach, Slovak Banking and Business Advisory Center

C. Czech Republic

1. Office of the AID Representative (OAR/Prague)

Robert Posner, PDO and Acting AID Representative
Ann Posner, Deputy Executive Officer

2. Other U.S. Agencies

Renne Earle, USIS Cultural Affairs Officer

3. Other Donors

Terrence Mooney, Director, Canadian Technical Cooperation

D. Germany

1. U.S. Embassy (Bonn)

Laure Redifer, Assistant U.S. Treasury Attache

2. Federal Republic of Germany: Ministry of Economics

Ullrich Mohrmann, Director, NIS & Ukraine
Louise Thomas, TA Coordinator for CEE and NIS
Hans-Christian Reichel, Counselor for East-West Relations

E. Poland

1. Office of the AID Representative (OAR/Warsaw)

Suzanne Olds, AID Representative
Deborah Prindle, Program Officer
Mike Snyder, Regional Contracting Officer
Michael Lee, Urban Policy Advisor
John Kawalski, Acting Executive Officer

2. U.S. Embassy

James Hooper, Deputy Chief of Mission
Richard Virden, Counselor for Press and Cultural Affairs (USIS)
Jonathan Darrah, Peace Corps Director

3. Other Donors

Dominic Meiklejohn, British Know-How
George Park, Acting World Bank ResRep

F. Lithuania

1. Office of the AID Representative (OAR/Vilnius)

Ronald Greenberg, AID Representative
Genevieve Abel, D/G Team Leader
Rasa Ciceniene, Private Sector Team Leader
Aldas Kriauciunas, Financial Sector Team Leader

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2. U.S. Embassy

Ambassador James Swihart

3. Other Donors

Frederick Lojdquist, Second Secretary, Embassy of Sweden
Ramune Zabuliene, Country Director, World Bank
Peter Modeen, Private Enterprise Specialist for the Baltic States, World Bank
Daniel Dobrovoljec, Program Manager, EU/PHARE
Vytas Gruodis, Exective Director, SOROS Foundation

4. Contractors

Vaidotas Ilquis, Director, NGO Support Center

G. Latvia

1. Office of the AID Representative (OAR/Riga)

Howard Handler, AID Representative (interviewed in Vilnius)

H. Estonia

1. Office of the AID Representative (OAR/Talanin)

Robert Maushammer, AID Representative (interviewed inVilnius)

I. Belgium

John Cloutie, U.S. Liaison Officer, European Union Headquarters, Brussels (interviewed in Washington)

J. Croatia

1. Office of the AID Representative (OAR/Zagreb)

Charles Anasson, AID Representative (interviewed in Washington)

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ANNEX C

ENI Country Progress Monitoring System Rankings (5/96)

	Economic Policy	Economic Peformance	Democratic Freedom	Social Conditions	Averages (a)	Averages (b)
Czech Rep.	1	2	1	2	1	1
Poland	3	3	1	5	3	2
Slovenia	5	8	1	1	2	3
Hungary	1	9	1	6	4	4
Estonia	6	1	6	6	5	5
Slovak Rep.	4	3	9	4	6	6
Lithuania	8	11	1	14	8	7
Croatia	7	5	10	3	7	7
Bulgaria	11	14	6	9	9	9
Latvia	10	10	6	15	10	10
Romania	11	6	10	17	11	11
Albania	16	6	10	20	13	12
Moldova	11	17	10	18	16	13
Macedonia	15	13	16	10	12	14
Russia	11	14	16	13	14	14
Armenia	19	20	10	12	14	16
Belarus	19	18	20	8	17	17
Kyrgyz Rep.	8	21	16	24	20	17
Uzbekistan	16	12	23	11	18	17
Georgia	22	25	10	20	19	20
Ukraine	18	23	16	18	20	21
Kazakastan	19	19	20	23	23	22
Turkmenistan	25	16	23	16	22	23
Azerbaijan	23	22	20	22	24	24
Tajikistan	23	24	23	25	25	25

Note: The rankings are averaged in two ways: (a) equally weighted across the three sectors (with economic policy and performance each weighted 16.5%; and (b) 40% for economic (20% for policy; 20% for performance); 40% for democracy; and 20% for social. From those results, a 1-25 ranking is calculated.

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ANNEX D

Obstacles to Achieving Strategic Objectives by Phase-Out Dates

1. External

- Land tenure issues
- Debt overhang
- Lack of trained people
- Weak local (and regional) institutions
- Continued ties to the East
- Communists' resurgency
- Ethnic strife
- Crime and corruption
- Quality of life declines
- Lack of foreign and domestic investment
- Repressive tax structure
- Lack of political will for reforms
- Weak financial/banking sector
- Lack of access to credit
- Legal and regulatory framework not in place
- Weak local government
- Weak civil society/lack of citizen participation

2. Internal to U.S./USAID

- Personnel issues: USDH and PSC cuts in AID/W and the field; retaining/training locals; keeping advisors until the last; combining positions as cuts are made
- How to manage/monitor residual activities, regionally or otherwise
- Who will monitor continuing central projects/endowments?
- Admin and other support for almost phased-out Missions
- Travel funds for Washington staff
- Paying off the mortgage
- Growing pipeline
- Congressional earmarks and "intiatives"
- Inflexible procurement policies
- Continuing requirement for Agency program reforms documentation

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Transmittal Memorandum November 1, 1996

From: Fred C. Fischer, Consultant

To: Ravinder Aulakh, ENI/ECA/NT

Subject: ENI Graduation Strategy Options Paper

I am hereby transmitting the "graduation strategy options paper" which the ENI Bureau contracted with me to prepare in Purchase Order (DHR-0249-0-00-6012-00) dated July 2, 1996. It incorporates the many structural and substantive changes to my original draft of a month ago, which you instructed me to make on the basis of the constructive comments and suggestions received from various ENI personnel.

As you know, there was some initial confusion about my Scope of Work (SOW). This was partly due to a semantic problem, relating to three terms which are variously used (and confused) in Washington and the Field: graduation, phase-out and close-out.

The term *graduation* implies that a country has achieved a certain measurable level of development and sustainable reforms -- and therefore no longer requires U.S. assistance.

The term p*hase-out* implies that we are terminating our aid program, but not necessarily because a country has achieved "graduate" status. A *phase-out* can be based on the fact that a country is *not* making sufficient progress and further U.S. assistance would be wasted. Or the timing of the *phase-out* could be based wholly or partly on U.S. strategic and political interests or budget constraints.

Moreover, a Mission that is implementing a "graduation strategy" is engaged in a programmatic *phase-out*, i.e., the latter term is also used to denote a process. It is correct to say that the ENI Missions are all in various stages of planning or implementing a programmatic *phase-out*, and I have used that term more often than the term *graduation* in this report.

The term *close-out* refers to an administrative exercise in the last years of the *phase-out* period. It can be best described as disposing of our physical assets and "turning out the lights." Only a handful of Missions -- Estonia, Latvia, Slovenia and the Czech Republic -- are already in the *close-out* mode, but my report does not address any close-out issues.

Per my abbreviated SOW (at Annex A), the focus of my work has been on the: "major *obstacles* – external and internal – which are likely to impede the Bureau in its efforts to achieve a smooth and successful phase-out of its assistance programs and presence in the CEE and NIS countries, with a special reference to the remaining *resource gaps*...and the various mechanisms that the ENI Missions can leave in place after their phase-out to sustain the benefits of their assistance and the momentum of their reforms..."

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This report is based on interviews with about 150 people in the ENI and other USAID Bureaus, as well as senior officials of other U.S. Agencies and multi-lateral and bilateral donor agencies working in the ENI region. Their names are listed in Annex B. My conclusions and recommendations are based largely on their inputs and insights. That being said, the views and interpretations expressed in this report should be seen as those of a consultant, and not necessarily those of the Agency for International Development.

It is important to note that my discussions in both Washington and the Field were focused mainly on the current situation in *the northern tier countries of central and eastern Europe*. I visited five CEE Posts – Hungary, the Slovak Republic, the Czech Republic, Poland and Lithuania – and met with several key personnel from Slovenia, Croatia, Latvia and Estonia along the way. Would my basic conclusions and recommendations be any different, if I had had the time to also visit a few CEE southern tier and NIS countries? Probably not.

In any event, the main beneficiaries of this report should be the ENI Missions and Offices in the CEE southern tier and NIS countries *which I did not visit*. They are not as far along in their *phase-out* as the CEE northern tier Posts. Thus, they should benefit from a reading of the many examples -- described in this report -- of positive *phase-out* actions planned or already being implemented in the northern tier countries.

That being said, I think it is fair to say that this exercise has already had some payoff in the northern tier countries which I visited. My discussions with Mission personnel -- particularly of the pros and cons of various mechanisms for leaving things behind -- stimulated some new thinking and follow-up actions at all those Posts.

I want to thank you and the scores of other ENI personnel who helped me in producing this report.